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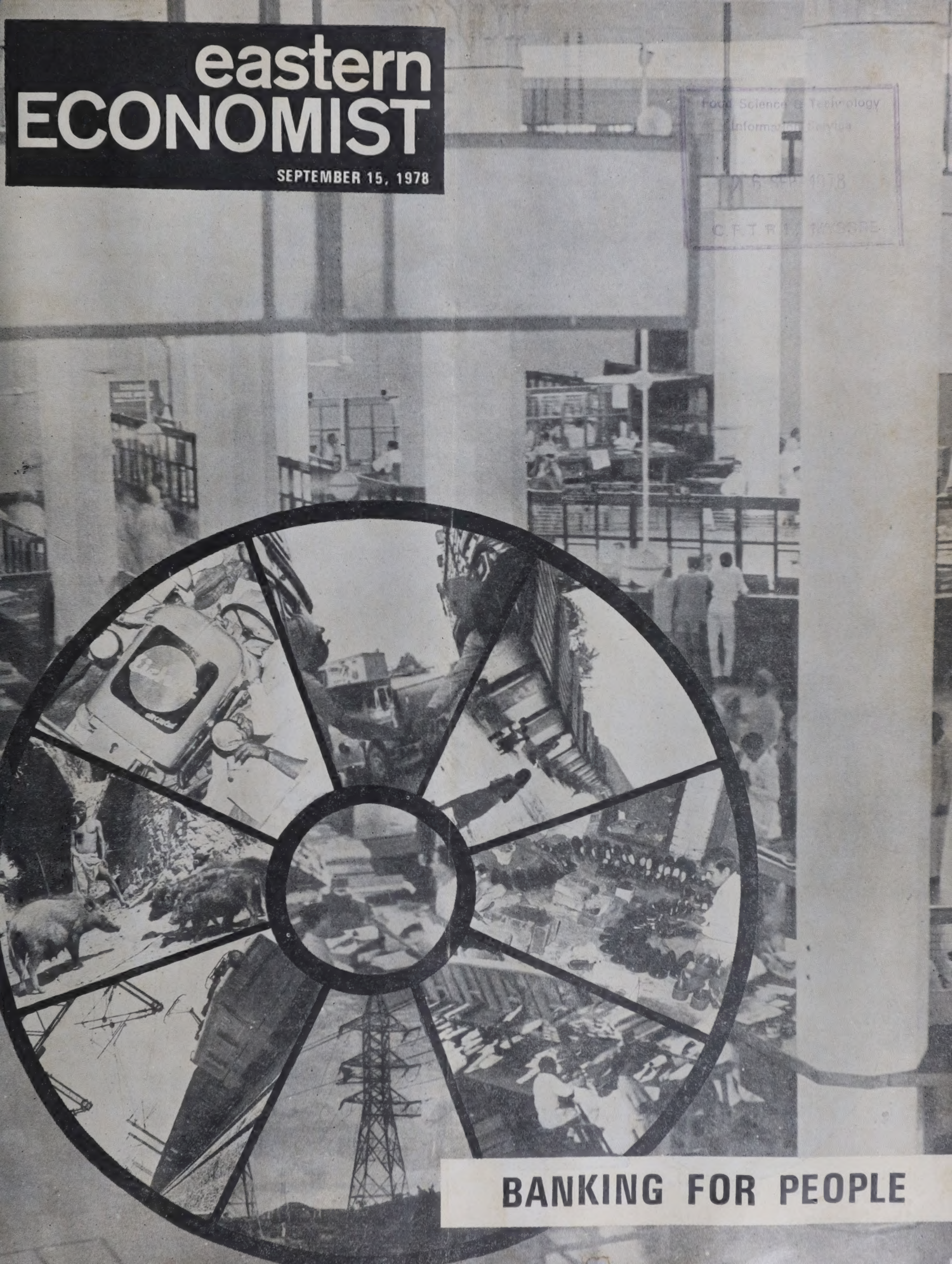

BANKING FOR PEOPLE

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Is government serious ?

THE PRESENT government had promised 18 months ago that it would liberate the economy from controls, or other regulations and restrictions, which had outlived their utility and were coming in the way of increased production, investment or employment. The prime minister, through a number of public statements, has, in fact, committed himself to this course of action. In spite of this, progress has been patchy. Whatever positive steps there have been are more in response to the compulsions of circumstances than in terms of decisions taken deliberately for the achievement of the proclaimed objective of freeing the economy. These advances in the management of the economy, however, are not any the less welcome for that reason. But the public must be clear in its own mind that the government, for reasons best known to it, is hastening less slowly than it need to in dismantling useless and positively harmful control structures.

This may partly be because the politicians as a class have a vested interest in permits, quotas and licences, which they are unwilling to divest themselves of. But equally relevant, surely, is the resistance from the bureaucracy to the winding up of administrative machinery or mechanisms which have grown wild during the long history of our controlled economy. That the bureaucracy obeys no laws except Parkinson's is of course too well known to be expatiated on. Therefore, if the political leadership in the government is sincere about abolishing unnecessary controls, it should issue a 'no-nonsense' directive to the various ministries to start working on the basis that every bit or piece of bureaucratic machinery concerned with controls in any form should prove its right to continue to exist or be scrapped.

Drastic as this suggestion may seem, it is still not as foolproof as it ought to be. If the bureaucracy is good at anything at all, it is extremely good at putting up a case for the indispensability of any and every part of its sprawling mass. It is therefore necessary that a small committee of three cabinet ministers, who should naturally be chosen for their known and genuine acceptance of the policy of liberating the economy, should be set up to monitor the whole process so that the building up of files is sternly discouraged and summary investigations are made for establishing the continuing utility of all regulatory organisations within the government.

A useful guideline here will be to examine promptly whether the various major policy decisions taken by the government have automatically rendered superfluous any of the bureaucratic machinery concerned with controls. For instance, now that the policy for the cotton textile industry has been restated, is it necessary for the government to continue to spend the taxpayer's money on the Textile Commissioner's office in Bombay? Since the control cloth obligation has been lifted off the mills and the emphasis has been shifted to promotional work for the decentralised sector, it is surely proper that the need for the continuance of this establishment should be assessed afresh.

The textile industry after all is being served by a number of developmental agencies, whether official or industry-based. The regulatory area has become very much restricted, if only because a decision has been taken to secure a protected market for the handloom sector by the direct means of freezing weaving capacities in the mill and powerloom sectors. Thus, at one stroke, most of the pettyfogging regulations now being applied by the Textile Commissioner's office to the day-to-day production details in the mill industry have been rendered obsolete, and with this goes virtually the whole of the justification for continuing the Textile Commissioner's office as a large organisation functioning from Bombay. A small cell in the Industry ministry in New Delhi should be able to take over whatever advisory functions may have to be performed in relation to policy-making or residual activities of an administrative nature. What the cotton textile industry needs now is not a commissar and its

minions breathing down its back all the time but the utmost flexibility of operation in manufacturing or marketing.

It is indeed strange that, simply because of certain circumstances in the past, some of our industries have become permanently burdened with bureaucratic overlords while others, fortunately, have been able to escape this fate. The jute industry too has to be counted among the victimised industries. For years now the Jute Commissioner's office in Calcutta has been functioning or, more precisely, malfunctioning as a spoke in the wheels of this industry. A grave weakness of all regulatory bureaucratic agencies is the tendency to over-regulate. This has been particularly true of the Jute Commissioner's establishment and it will be no exaggeration to say that much of the problems and difficulties experienced by the jute industry in adjusting itself from time to time to its varying fortunes, whether with regard to the availability of raw jute or in the matter of price-and-demand situations in export markets, have been the direct result of excessive government intervention in fostering which the Jute Commissioner's office has an obvious vested interest.

jute in geopardy

Such crippling ailments of the jute industry as obsolete machinery, underutilized capacity, redundant labour and instability in raw jute supplies and prices may not have assumed serious proportions, but for the fact that the Jute Commissioner's office has been acting most of the time in the belief that it must justify its existence by introducing as many complications and elaborations as possible into the government's intervention in the affairs of the industry. Instead of assisting New Delhi to appreciate the needs and problems of the jute economy, properly or promptly, the Jute Commissioner's office has invariably operated as a misleading intermediary interested in widening the communication gap between the central government and the jute industry. Moreover, its existence has also served to dilute the sense of responsibility of the government of West Bengal towards one of the major industries in that state, which has the added significance of being agriculture-based, employment-intensive and export-oriented. Again, as in the case of cotton textiles, so also in the case of the jute there is a number of essentially developmental agencies, both official and industry-based, which should be able to take care of the various promotional aspects. It follows that there is not much point in the government talking in the language of decontrol unless specific decisions are taken to wind up wasteful or otherwise harmful bits and pieces of bureaucratic machinery which have their origins or may have their justification in a controlled economy.

Policy for state loans

THE POLICY pursued by the Reserve Bank in regard to the floatation of state loans for 1978-79 has come as a surprise in money market circles. Following the representations to the central government by many states that they should be allowed to increase their share of borrowing through open market loans and that there should not be any difficulty in securing resources for productive projects on a cheap basis, it had been expected that the notified amounts of state loans would be much larger than in 1977-78. The Reserve Bank, however, has not chosen to adopt a different policy on the present occasion and it would appear that the present intention is to restrict nett borrowing to around a level of the previous year and take new decisions, if any, later.

In view of the vastly expanded capacity of the gilt-edged market state governments can easily raise Rs 354 crores nett annually against Rs 185.80 crores borrowed latterly. What exactly is the thinking of the monetary authorities is not clear. It has been legitimately complained that the centre has ready access to the resources of scheduled commercial banks, Life Insurance Corporation and provident funds and, with the facility to create currency against a tender of ad hoc securities, the bottleneck in respect of resources can always be overcome easily. It is not therefore surprising that complaints have been heard to the effect that the centre has the lion's share of borrowable funds and taxable resources, and that even in respect of loans secured from foreign countries for specific projects, the benefit of soft loans has not been fully derived by the states concerned. As a result of discussions in recent months a better understanding has been reached in regard to utilisation of soft loans in foreign currency granted by friendly countries for implementation of projects like Srisailam, Nagarjunasagar and Kalinadhi.

However, there is some discontent over the disinclination of the central government to permit the mobilisation of larger amounts through open market loans especially when new restrictions have been imposed in regard to the use of overdraft facilities provided by the Reserve Bank from the beginning of October 1978. Everyone will agree that easy resort to creation of currency through unauthorised overdrafts is not desirable. At the same time, it is argued that there should also be some restriction relating to creation of currency by the Reserve Bank against ad hoc securities tendered by the central government. In Britain and elsewhere the permission of the legislature is obtained for specific fiduciary limits and uncovered overall deficits are not allowed to expand indiscriminately as any unexpected increase in note circulation or money supply can have serious harmful effect when there is no matching availability of goods and services. The ideas in this regard will presumably get clarified after a special committee appointed by the National Development Council has concluded its deliberations and the recommendations of the seventh Finance Commission have also been submitted to the central government.

It cannot however be denied that the

State Loans Subscribed

All the 6.25 per cent 1988 loans issued by 20 state governments for a total notified amount of Rs 254 crores were subscribed within an hour of their opening for subscription on September 12. All the state governments reserve the right to retain 10 per cent excess subscriptions over their notified amounts.

centre has been extending substantial assistance to the states through loans and grants and debt repayments have also been suitably rescheduled from time to time. It may also be legitimately contended that the grant of special loans of Rs 430 crores by the centre for bridging actual or estimated deficits of the state governments as on March 31, 1978 has provided the much needed relief to those states which have been experiencing an extremely difficult ways and means position.

the handicaps

The dependence on the centre and the difficulties involved in effecting repayments within a short period are a handicap. The special loans have to be repaid in five years beginning from 1979-80 which means that about Rs 90 crores will have to be found additionally annually by all states for repayment purposes and a good portion of the additional resources that may become available under the new formula for devolution of tax revenues from the centre would be absorbed by these repayments.

There will necessarily have to be greater effort on borrowing through small savings and open market loans for financing ambitious sixth Plan schemes and these efforts may not yield desired results if unexpected repayment obligations have to be fulfilled. There is however no justification for running up unplanned deficits though here again the state governments may complain that the centre does not feel the impact of uncovered deficits on a cumulative basis. This is because the floating debt increases notionally by the tendering of ad hoc securities and the funding of these ad hoc securities into term loans takes place conveniently in consultation with the Reserve Bank. On the other hand state governments are having cumulative deficits and these are wiped out periodically by the central government making special adjustments and assistance.

There is no rational explanation about why the Reserve Bank has not chosen so far to enable the state governments to borrow on a different pattern and new loans have so far been having a duration of 8/12 years with only a small increase in nett amount over a period. Five years ago the nett amount borrowed was only around Rs 100 crores. In the past two years the amount has increased to Rs 175/180 crores. This is no doubt a substantial increase, but the nett amount borrowed by the central government has more than trebled in the same period and an all-time record of Rs 1800 crores is likely to be established in 1978-79 against the target of Rs 1650 crores. Even allowing for the special loans granted by the centre for bridging deficits the nett amount borrowed including new loans will not be more than Rs 600 crores. The loans and grants extended for Plan schemes have of course to be taken into consideration and it may not be strictly correct to say that the states have been denied their due share of borrowed funds. But, the dependence on the centre's doles is there and there is also no scope for flexibility in scheduling repayment obligations. Since there is furious thinking on these questions and major developments are expected in the coming months centre-state relations can be expected to be established on a pragmatic basis in a manner that will give the states a feeling that they are not seriously handicapped on account of lack of resources. There is, however, no reason why the pattern of borrowing through open market loans by state governments cannot be reasonably varied. Having regard to the vastly expanding capacity of the gilt-edged market there is every justification for floating medium-long and long-dated issues with the duration for the long-dated loans being not more than 25 years. The interest rates also can be raised suitably for medium-long and long-dated issues and even a rate of seven per cent on long-dated loans will not be unduly heavy, having regard to the convenience afforded for repayment after a fairly long interval and the possibility of new projects yielding sizable returns after a period of gestation.

There is however no evidence of thinking on these lines. The new loans raised by the 20 state governments have a notified amount of only Rs 253.50 crores. Even here the first announcement gave a notified amount of Rs 249.75 crores and

Eastern Economist 30 Years Ago

SEPTEMBER 17, 1948

At 4 a.m. on the morning of Monday, September 13 as if by accident the day on which the Peshwa Balaji Rao I launched an attack on the Nizam in 1727—our troops crossed at five points into Hyderabad State. Opposition has been encountered but advance has been maintained according to expectation and there is no reason to be anything but cheerful about the progress of operations. There can be no doubt—and perhaps now least of all in the mind of the Nizam—about the result. But just because the issue is not in doubt and our superior force must triumph, we must be doubly sure that our cause is just. It is vital, as we claim to live by the principles of justice between nations as between individuals, that we should be able not only to satisfy our own conscience but that we should not be afraid boldly to face the world.

That or nothing is the meaning of a righteous cause. We may argue a nice technical point as to whether or no Hyderabad is a State within the meaning of Article 35 of the Charter. Opinions are apprenently almost equally divided in the British Foreign Office and at this very time the matter is being examined by the Security Council. But unless we have something to hide, we should not wish to take shelter merely behind a technicality and, indeed it will not help us if we merely win on a technical ground, for world opinion may tend, as it always does in such events, to turn towards the loser in the case. The issues in the Hyderabad case must be squarely faced on their own account. We have all wanted action in Hyderabad; some, perhaps, for less noble motives but most of us, at any rate, have wanted it for reasons which we believe will bear the most searching scrutiny.

only subsequently the notified amounts of Kerala and Karnataka governments were raised to Rs 14.00 crores from Rs 11.25 crores and to Rs 15.75 crores from Rs 14.25 crores respectively. As maturing loans have outstanding amounts of Rs 96.45 crores the nett amount borrowed is only Rs 157.05 crores. The acceptance of cash subscriptions in excess of the notified amount up to 10 per cent has of course enabled the states to raise about Rs 180 crores which is only marginally higher than Rs 178 crores secured in 1977-78. In August last year the notified amount of 20 loans was Rs 257 crores and the maturing loans had an outstanding amount of Rs 105.15 crores. The only difference in this year's borrowing programme of the states is the increase in the issue price to par from a discount of ½ per cent. The success of the loans has not come as a surprise as the scheduled commercial banks and provident funds have large investible funds and all new loans and bonds are easily lapped up. The Reserve Bank will naturally make an attempt to complete the borrowing programmes of the centre with the state loans out of the way but satisfactory answers will have to be provided for the new issues that have arisen and for ensuring a proper allocation of loanable resources.

Lesson for all seasons

How the generalities of credit control could cause unintended damage in individual cases is strikingly brought out by the sad plight of WG Forge & Allied Industries Ltd, a leading manufacturer of steel forgings for light and heavy engineering industries, including those producing transport equipment. Thanks to a successful record of technical collaboration with the American firm of Wyman-Gordon and a good earnings record, it was able to attract generous response from the investing public in July 1974, when it made an offer of equity shares of the face value of Rs 10 each at a premium of Rs 2.50 per share, so that the foreign shareholding could be diluted from over 70 per cent to about 39 per cent. It was expected then that, since the company had established itself in an expanding market and was also planning to diversify its production by undertaking the manufacture of finished crankshafts, the shareholders could reckon on a reasonable return on their capital. The company, in fact, declared a dividend of Rs 1.50 per share, calculated at 12 per cent per annum for a 15-month period ended March 31, 1976. But, it has since then been off the dividend list.

Its earnings and finances, in fact, have deteriorated sharply through 1976-77 and 1977-78. Such is the messy state of the affairs of the company that its directors were able to affix their signatures only on the 12th July this year to the audited accounts of the company for the year ended March 31, 1977. The financial results make sad reading. On sales of Rs 10.5 crores, the company has incurred an operational loss of Rs 2.59 crores. After interest and depreciation liabilities are added and an appropriation of Rs 1.37 crores from general reserve is deducted, the loss carried forward stands at Rs 5.34 crores. This set-back in earnings reflects a substantial loss in terms of physical production due to a number of reasons, from which management lapses cannot obviously be excluded; the directors have taken eight pages of the annual report for their observations on the reservations contained in the auditors' report.

The main explanation for the company's difficulties, however, would appear to be the "go-slow" for 135 days at its Thana factory, followed by a strike of 35 days. Labour trouble of these dimensions could have crippled the working of any firm and it is no wonder that this one lost heavily in terms of sales in both home and export markets. According to the directors' report, the company's efforts to cope with the resultant financial stringency were not helped by the reluctance of banks to extend the required working capital facility. While the troubled affairs of the company might have had something to do with the attitude of its bankers, the government policy of credit squeeze had also created problems.

philosophical abstractions

Not only this company, but a number of others must also have been similarly affected by the curbs on bank credit which were so drastic at one time and are still severe—a thought which must surely discourage the Reserve Bank and the Finance ministry from putting too much faith in the philosophical abstractions of credit control. Meanwhile the government of Maharashtra has declared the company a "relief undertaking" so that it could work out a scheme of arrangement with the banks or other creditors which or who are heavily involved in its rehabilitation. Without making any excuses for shortcomings in the management of this particular company, it could perhaps be suggested that, had there been more flexibility and pragmatism in the administration of credit controls, a great deal of industrial "sickness" could have been forestalled; the "soft loan" windows are mere escape routes. Here is a lesson for the future or, perhaps, for all reasons.

The worst ever price rise is arrested; Billa is captured, Sir.

CAPITAL'S CORRIDORS

R. C. Ummat

Rural electrification • Utilisation of smaller ports • 1977-78 farm output • Flood control

Of the 22 states and the nine union territories in the country, only two states —Punjab and Haryana—, and three union territories—Chandigarh, Delhi and Pondicherry—have so far achieved the distinction of supplying electricity to all the villages in their jurisdiction. The states of Tamil Nadu and Kerala and the union territory of Dadra and Nagar Haveli are expected to attain this feat by the end of the current financial year or soon thereafter. They had electrified till December 31, 1977, 98.6, 96.4 and 68.1 per cent of their villages, respectively.

Three more states—Maharashtra, Karnataka and Orissa—and the union territory of Goa, Daman and Diu, which have so far electrified 58.5, 55.8, 27.9 and 84.6 per cent of the villages in their jurisdiction, respectively, hope to achieve 100 per cent rural electrification by the end of 1983-84. The states of Uttar Pradesh, Andhra Pradesh, Assam, Himachal Pradesh, Nagaland, West Bengal and Rajasthan may do so by the end of 1988-89. The rural electrification programmes in their case have covered so far 33, 51.3, 9.5, 44, 23.4, 30.1 and 26.8 per cent of their villages.

the progamme

Hundred per cent rural electrification in the states of Gujarat, Meghalaya and Tripura, where 42.8, 7.6 and 7.8 per cent villages have been electrified as yet, is likely to be attained only by 1993-94. All the villages in Bihar, Madhya Pradesh and Manipur may be electrified even after 1993-94. They have been able to electrify 27.3, 22.1 and 12.1 per cent of their villages.

The states of Jammu and Kashmir and Sikkim and the union territories of Andaman and Nicobar Islands, Arunachal Pradesh, Lakshadweep and Mizoram have yet to finalise their perspective programmes of rural electrification.

By the end of December last, 209,975 villages, out of a total of approximately 576,000, had been electrified. The programme got accelerated after the severe droughts of 1964-65 and 1965-66 and more particularly after 1967 when the Rural Electrification Corporation was formed.

A major change was effected in the programme in 1966-67. Prior to that year, the main emphasis was on village electrification. Following the severe droughts of 1964-65 and 1965-66, the programme was made agriculturaloriented. The major emphasis then came to be laid on energisation of I.P. sets/ tubewells with a view to providing assured water supply for farming operations.

The above change in emphasis and the acceleration of the programme are evident from the following table:

As on	Villages electrfied	Pumpsets energised
31.3.1951	3,061	21,008
31.3.1956	7,294	56,058
31.3.1961	21,754	198,904
31.3.1966	45,148	512,756
31.3.1969	73,739	1,088,804
31.3.1974	156,729	2,426,133
31.3.1977	209,975	3,204,014

The total investment on rural electrification, which was Rs 8 crores during the first five-year Plan period starting in April 1951, was augmented to Rs 75 crores during the second Plan and Rs 152.87 crores during the third Plan. It was of the order of Rs 236.90 crores during the three annual Plans covering the period 1966-67 to 1968-69 and Rs 787.84 crores during the fourth Plan period ending 1973-74. The fifth five-year Plan, which was terminated a year ahead of the schedule in March this year, envisaged an expenditure on rural electrification to the tune of Rs 685.30 crores. Originally an expenditure to as large an extent as Rs 1098.24 crores had been proposed for the fifth Plan period. It was curtailed due to financial constraints. Had the originally proposed investment been maintained, the implementation of the programme could have been faster.

availability of funds

By the end of December last, 58.5 per cent of the entire rural population of the country had been covered by the programme. The scheme is implemented by the governments of the states and the union territories from their Plan resources. Some funds are also made available by the Rural Electrification Corporation and other financing institutions such as the ARDO, development banks, etc. The funds made available by the financing agencies are earmaked for the specific schemes accepted by them according to the prescribed terms and conditions and viability criteria.

Besides the limitation of financial resources, the two other factors that have somewhat hampered the growth of rural electrification, even though the programme has been accelerated, are the inadequate availability of construction materials and aluminium conductors. The state electricity boards have also been not very enthusiastic about stepping up the tempo of implementation rapidly because of the low returns. Nevertheless the programme is envisaged to be enlarged during the current Plan period in view of the heightened emphasis being placed on agricultural development and augmentation of irrigation facilities, particularly through the exploration of groundwater resources.

The 100 per cent rural electrification in

the country is estimated to involve, at current prices, an outlay of Rs 3,360 crores.

* *

In view of the congestion at the main ports in the country, particularly at Bombay, serious thought is being bestowed on devising ways and means of making greater use of the various smaller ports on the Indian sea coast, both for export and import purposes. High-level deliberations are expected to take place in this regard in the near future.

The government does not favour any compulsory reorganisation of the imports and exports route pattern through such measures as making it incumbent to use any particular port by its hinterland. It will try to persuade and even encourage the use of smaller ports by such means as making available some incentives, particularly in port charges and railway freight.

It is felt that if the smaller ports are utilised to a greater extent than hitherto, it will be possible not only to reduce the congestion at the main ports but also to cater for a much large import/export traffic. The Indian shipping lines may be asked to lend a helping hand in this programme.

The infrastructure facilities at the less utilised ports are proposed to be developed adequately. This process, it is thought, can gather momentum if the importers/exporters show some inclination to use these ports.

The public sector agencies in the field of external trade are understood to be being sounded for greater utilisation of the potential of the smaller ports.

* *

The latest 1977-78 agricultural harvest estimates put the production of foodgrains during the year at 126 million tonnes—12.9 per cent more than the output of 111.6 million tonnes in the previous year. The production of rice is stated to have shown an increase of 23.4 per cent—to 52.8 million tonnes from 42.8 million tonnes in 1976-77—and that of wheat to the extent of 8.3 per cent—to 31.5 million tonnes from 29.1 million tonnes. The output of other cereals went up by 4.2 per cent—to 29.7 million tonnes from 28.5 million tonnes—and that of pulses by 6.2 per cent—to 11.9 million tonnes from 11.2 million tonnes.

Among the cash crops, the production of sugarcane is estimated to have been around 180 million tonnes—16.9 per cent more than the yield of 154 million tonnes in 1976-77. Oilseeds output improved by 15.4 per cent—to 9 million tonnes from 7.8 million tonnes—and that of groundnuts alone by 15.4 per cent—to 6.07 million tonnes from 5.26 million tonnes. Cotton production improved by 22.8 per cent—to 7.15 million bales (of 170 kgs each) from 5.78 million bales—and that of jute and mesta by 0.6 per cent—to 7.12 million bales (of 180 kgs each) from 7.08 million bales. The production of sugar is estimated to have been of the order of 6.5 million tonnes, i.e., 34.3 per cent higher than 1976-77 output of 4.84 million tonnes.

use of inputs

Besides favourable weather conditions, the higher agricultural output last year was obtained through increased use of fertilisers and pesticides and extension in area under irrigation and high-yielding varieties of seeds. The application of fertilisers, it is estimated, went up by 25.7 per cent—from 3.41 million tonnes in 1976-77 to about 4.28 million tonnes—and that of pesticides by 17.2 per cent—from 50,500 tonnes to 59,200 tonnes. The increase in the area under high-yielding varieties of seeds was of the order of 13.1 per cent—from 33.6 million hectares to 38 million hectares. Irrigation facilities were extended to an additional 2.8 million hectares, as against 1.5 million hectares in the previous year. A sizeable increase was registered in the provision of institutional credit to farmers. The overall credit went up to Rs 1726.09 crores from Rs 1575.96 crores—long-term credit to Rs 291.04 crores from Rs 250.13 crores and short and medium-term credit to Rs 1435.05 crores from Rs 1324.84 crores.

The application of chemical fertilisers is envisaged to be raised during the current agricultural year to five million tonnes and that of pesticides to 65,000 tonnes. The area under high-yielding varieties of seeds is proposed to be raised to 42 million hectares. The area under irrigation is programmed to be increased by 3.4 million hectares. The overall institutional credit is to be made available to as large an extent as Rs 2214.57 crores—long-term credit Rs 419.35 crores and short and medium-term credit Rs 1795.22 crores.

* *

An earnest campaign is being launched to recoup a significant proportion of the loss in agricultural production due to the unprecedented floods in various parts of the country in the recent weeks. Efforts are being made to encourage farmers in the flood-effected areas to go in for earlier maturing rabi crops. Special emphasis is to be laid on the cultivation of potatoes and other vegetables, the supplies of which have been affected seriously.

The overall damage caused by floods up to September 6 is officially estimated at slightly more than Rs 91 crores. The floods till then had affected an area of 8.78 million hectares in 46,166 villages having a total population of 32.43 million persons. About six lakh houses had been damaged or destroyed. The standing crops had been affected in an area of approximately 6.1 million hectares. Since the flood situation has worsened in some of the northern states, particularly Uttar Pradesh, subsequent to September 6, the damage caused can be expected to much higher.

A fresh look is being bestowed on the flood control programme following the devastation caused this year. It is realised that river basin programmes in future will have to be drawn up in a coordinated manner in consultation with the state governments concerned. To enable the centre to have a greater say in the matter, an amendment to the constitution might be necessary.

The expenditure on control of floods is being stepped up. It is proposed to spend this year nearly Rs 150 crores. The allocation for the five years of the current Plan is likely to be raised to Rs 680 crores from Rs 675 crores contained in the draft document.

Why don't we ask why our country is not growing?

S. K. Birla

Speaking at the Rotary Club, Calcutta, Mr S. K. Birla, president, Indian Chamber of Commerce, referred to the estimates which indicate that since independence the government had collected Rs 30,000 crores additional taxes including direct and indirect levies. Had this amount been left in the hands of the people, he avers, it would have contributed to productive investment resulting in the country's GNP multiplying ten times and our per capita income going up to Rs 11,000. Government revenue would have climbed up seven times the present level. Mr Birla wants positive thinking public opinion to build up and express itself boldly on such major issues. Here is the text of Mr Birla's speech.

IT HAS been said that "the business of business is doing business". Somehow I can't get away from the feeling that in India this aphorism no longer holds true—it seems there is more of government in business than anything else. We have been deliberately and carefully steered into this situation by a politics of compromise and the resulting need to follow populist policies. All this has resulted in curbing growth. This is the tragedy of our nation—with the richest of potential, trained manpower and natural resources we are nowhere on the world economic atlas. This lack of growth has caused us to stagnate over the years and more particularly in the past decade.

true perspective

Perhaps a truer perspective of our position can be formed if we carry out a comparison with some other countries. It is not a secret that year after year, with literally no natural resources at its command, Japan has recorded an overall growth rate of 11 to 13 per cent. Nearer home, the average per capita income of some far lesser developed ASEAN countries is three times that of an Indian. These countries have recorded a development rate of seven per cent in the past few years, while here we are struggling to maintain a growth rate of less than four per cent. What is the reason for our poor track record? Vagaries of monsoon, paucity of foreign exchange, international recession, inflation etc are often cited as the reasons for our sluggish growth yet these are not new problems and all other countries have faced them within the same decade. Why is it that the same Indian who in his own country finds difficulties in making ends meet, blossoms out into a successful entrepreneur abroad? The reason is the environment and the government policies tuned to growth and development; here, the reverse seems to be the case.

POINT OF VIEW

The fact is that as a nation we are being taxed out of growth and the initiative and enterprise of our people is choked under the plethora of the self-defeating and pseudo-progressive policies followed by successive administrations. I only wish the politicians were better able to understand the results of their handiwork.

After three decades of growth, our per capita income has grown to a meagre Rs 1050 per annum and 40 per cent of the population still lives below the poverty line; our planners feel that with a great deal of struggle we may maintain a growth rate of around five per cent. If we were to maintain a growth rate of five per cent in the coming 20 years, our per capita income would grow to a little over Rs 3000. In the same period, the ASEAN countries are likely to achieve a per capita income of Rs 30,000. At a growth rate of 10 per cent our income would grow to Rs 13,000 and at a rate of 13 per cent our people would, in the year 2000, achieve a level equivalent to the average west Europen standard today. In fact, our actual rate of growth has averaged only 3.5 per cent in the past decade. Where have all our resources gone, why are we not growing faster? In other words why is business not working and expanding as it should?

obstacles to growth

It has been estimated that since Independence, a staggering total of Rs 30,000 crores has been collected by way of additional taxes, including direct and indirect levies. While naturally any government needs to raise revenue to keep its machinery running, the fiscal policy should not be allowed to become an obstacle in the way of growth, as it happened here. If this additional tax had been left in the hands of the people, it would have directly or indirectly contributed to productive investment resulting in a substantial hike in growth rate and resource generation. In such a situation, estimates reveal that today our Gross National Product would have been 10 times more at Rs 670,000 crores and the per capita income would have been correspondingly higher at Rs 11,000. Furthermore, governmental revenues would have climbed to Rs 85,000 crores, seven times the present level. Does this not illustrate beyond doubt the debilitating effect which our tax structure has had on national growth?

And one may well ask to what use has all this money been put! While some of it has naturally been utilised to build the necessary social and industrial infrastructures, much of it has gone into unproductive expenditure and into building the

public sector industry. "Commanding heights" is what it is said to have achieved; looking at the losses of most of them, "Commanding depths" would perhaps describe it better. Constraints of time prevent my going further into the subject, but the point is: should tax revenues go to feed bureaucratic inefficiency at the cost of creating new capacity. I think it was Prof. Harry Johnson, who said in Calcutta, that Socialism means that the public gets the benefit of the income and not that civil servants run the business.

perpetual shortage

After all, people will only be as rich as the goods they produce and we have created a perpetual shortage of resources ourselves. We must not forget that what is produced must also be consumed, otherwise there is no point to production. There is an unfortunate tendency on the part of the administration to cry austerity at every step. Why are they afraid to encourage consumption? Is it to cover their own failures of policy and management? Recently a prominent leader, on returning from a tour of the Far East had this to say:

"There was no helplessness that is writ large on Indian faces visible on faces I saw in the countries I visited.

"As evidence of progress made, there were burgeoning trade figures, more prosperity, more money in the pockets, new buildings, new roads, new gardens.... and....higher goals.

"The governments in these countries seem to have made conscious effort to create in people a desire for the comforts of life. Nowhere I heard any slogans of sacrificing this or sacrificing that. If there were any slogans at all, then they were extolling people to do this, to enjoy that, to acquire this, to go on a holiday."

Our fiscal policy has to ensure enough retention with the individual for investment and must generate purchasing power in the masses. For this a substantial lowering of the tax burden, direct or indirect, is a prerequisite.

Every year on February 28, a suspense builds up and the tax proposals are announced, sometimes to the unpleasant surprise of many. Is it necessary to maintain a cloak and dagger secrecy over this vital matter which affects all? Trends in other countries tell us otherwise. Japan has a system of publishing its proposals for lengthy public debate and discussions —in England, white papers are published for eliciting the views of all. How far is it justified that decisions of such magnitude are perpetrated on the public without their opinion having been sought on the vital issue of how much a person may retain of the fruits of his labour? I feel we should change our system—let the people have a greater say in how much they will pay and to what use the money will be put.

pragmatic approach

Let me now touch upon another aspect, the industrial policy. How has it worked all these years? It was certainly pragmatic and growth-oriented till about the mid-sixties and then the rot set in. Where are we today? We have one of the best iron-ore reserves in the world; we are exporting ore and have to import steel. In 1945, Japan produced less steel than us, today it produces 102 million tonnes against our 7.0 million tonnes. Then, aluminium. Our bauxite reserves are the largest in the world. The private aluminium companies had applied for expansion three years ago, yet they were not allowed and we are now importing aluminium worth Rs 70 crores this year. A purely administrative decision, or lack of it, has caused this bottleneck—and not that it has been sorted out yet. Take the cement policy; paper; coal. The list of lost opportunities is endless. And it arises out of the stultifying policies that form our credo.

In the past few months, some attempts have no doubt been made to decentralise the whole process; policies announced in respect of some specific industries are steps in the right direction. I have welcomed these moves but this is only scratching the surface. The whole edifice of controls over growth needs to be dismantled wholesale.

There seems to be an impression in the minds of some of our more impressionable MPs that the granting of a licence is the display of a great personal favour to the entrepreneur—the reverse is probably more true; getting the licence is only the beginning, problems all lie ahead. It is really disheartening to read what has gone on in parliament in the past one year; it is invariably curb this, prevent the growth of that. I have yet to see a question arising "Why is our country not growing? What is being done to stimulate growth and employment?" No one just seems to be bothered where we are going. Even our planners very complacently talk about the impracticability of higher growth. It seems that the effective impact of all our policies amounts to a distribution of poverty rather than an enhancement in productive resources. It is perhaps our misfortune that a handful of people who seem to influence decision-making should hold such confused views. Does this particular class have a vested interest in poverty and unemployment? The need is to let loose the creative energy of the people, not to hamstring them at every step.

public discussion

There has been a continuous discussion in public forums about aspects such as a large public sector and the so-called large houses. Much has already been said on both sides and I need not go into this again. Our national policy adheres to the concept of a mixed economy, yet repeatedly there are urgings by certain sections to nationalise this, take over that. I have briefly touched upon the performance of the public sector. It has indeed a very vital role to play in the development of our nation. But its indiscriminate expansion regardless of economic considerations and on ideological grounds can only have a disastrous effect. Right here, in this city, are a large number of industries "taken over" by the government or nationalised. What is their position? With rare exception, they are each losing heavily. The take-overs were supposed to end the malaise, they merely accentuated it. One wishes that viable preventive measures had been the keystone of government policy instead.

Large houses, so called because of a most peculiar formula, have become the favourite whipping boy of every progressive—he calls himself a progressive, I

think he is retardative. "Monopoly" in the English language means exclusive control or exclusive trading privilege. What has this got to do with the size of an undertaking? Yet this term imposes all sorts of disabilities on a corporate body should it presume to touch a certain size —Rs 20 crores. It does not matter if out of this 20 crores, 19 crores should be debt or liability. The other day, Mr J.R.D. Tata was at pains to explain the figures in respect of TISCO. I am sure all of you have seen the report —all I can say is that it is a strange formula indeed by which to formulate policy! Here again is a concept which needs to be bodily removed.

tiny counterparts

The *Fortune* magazine publishes comprehensive data about US corporations. The 1000th corporation in the USA—in terms of size—has sales of Rs 100 crores and assets of Rs 136 crores. It—equally the largest—suffers from no disabilities of growth. How tiny do their Indian counterparts appear in comparison—and yet the greatest concern of some of our policy-makers is to prevent their further growth. The US government intervenes if anything is done to dominate the market or reduce competition. The whole concept is tuned to growth and consumption and more service to the consumer.

Gentlemen, there is no confict between the larger and the smaller sectors of industries. Each has a vital role to play and each complements the others. No one sector can grow in isolation, all have to grow in consonance to their respective levels of technology. It is very easy to lop off the top; it takes a lot of work to expand the base to provide a more stable growth and reduce disparities. What is needed is the active aid and support to the smaller entrepreneurs to enable them to come up—in other words, a positive approach.

So these are just a few of the problems arising out of basic governmental policies which have affected the growth of business in this county. The free society urged by our founding fathers has to shrug off the chains that bind it. Rapid economic growth has to be the guiding light of all our policies. Production capacity must keep a step ahead of demand and goods must be available to all sections of society. I believe in letting free-market forces to guide the economy; in the right of the individual to work and grow. Business must welcome competition, lower costs and lower prices. With an increase in prosperity ours will be the largest market in the world. We must do everything within our power to build it that way. We also have our commitments to society, to community development and to the larger welfare of the people. Undoubtedly these have to guide us in our actions.

Before I conclude I would like to quote the opinion of the eminent economist, Dr Colin Clark, on the relationship of government and business:

"Much of the mistaken emphasis on investment betrays an urge on the part of those who would like to see more and more power in the hands of the state to enlarge what is called the government over the private sector. And in this way, increasing public investment offers scope for the bureaucrat and the politician to enhance and aggrandise their authority by economic showmanship....

"There is also the indirect waste following from taxation, rising prices, government controls and other measures....all of which damage....the economy by distorting production, impairing incentives to work, to save and erecting a costly apparatus of officialdom."

I again emphasise that the problem is one of resources. Fiscal policy has continued to aim merely at resource mobilisation and not generation. The main failure over the years has been mismanagement of finance. The traditional concepts—so long followed with negative results—need to be radically altered. Disparity with the rest of the world is growing. We must realise that the dynamics of rising expectations cannot be, must not be kept in check.

Gentlemen, I have posed a lot of problems. How should they be tackled and solved? I submit—by forming an educated and vocal public opinion. You may have read of the great tax revolt in California a couple of months ago—the government was ultimately forced to give a $4 billion tax-refund. This clearly shows what public opinion can achieve. It is time that a positive thinking public opinion builds up and expresses itself in our country as well. It is groups like yours which have to take the leadership in this and perhaps then business will be able to perform its business with the requisite results.

WINDOW ON THE WORLD

Record lending by World Bank, IDA & IFC

During the fiscal year 1978, the World Bank and the IDA committed a total of \$8,410.7 million for development projects in some 75 countries. Of this total \$1,648.9 million went to six countries in south Asia—Bangladesh, Burma, India, Nepal, Pakistan and Sri Lanka. Details of the Bank's fiscal 1978 activities were released on September 14, a summary of which is given here.

COMMITMENTS TO lend \$8,749.1* million to developing nations were made by the World Bank and its affiliates, the International Development Association (IDA) and the International Finance Corporation (IFC) during fiscal year ended June 30, 1978.

The World Bank approved 137 loans—totalling \$6,097.7 million – to 46 countries during the year. In fiscal 1977, Bank commitments totalled \$5,759 million.

IDA commitments in fiscal 1978 amounted to \$2,313 million, and were for 99 credits to 42 nations. In fiscal 1977, IDA commitments were \$1,308 million.

The IFC made 41 investments amounting to \$338.4 million in 31 countries in the past year. By contrast, the corporation—its essential function is to assist the economic development of its less developed member countries by promoting private sector growth—made loan and equity investments that amounted to \$258.9 million in fiscal 1977.

The commitment figures for the Bank, IDA and IFC were all record highs.

The 77 per cent increase in lending by IDA over fiscal 1977 was due to the increased resources that were made available to it by the association's donor nations during the first year of a three-year fifth replenishment period that runs through fiscal year 1980. The association has received \$7,731.7 million in pledges from 26 countries for the fifth replenishment period. Almost 89 per cent of IDA's lending was to countries with annual per capita incomes of below \$280. More than half of all IDA credits (58 per cent) during fiscal year 1978 were for agriculture and rural development. Almost a third (32 per cent) of Bank lending was to that sector.

A total of \$3,269.7 million was lent by the Bank and IDA for agriculture and rural development, a gain of 42 per cent over the previous year. According to the annual report, lending to that sector has amounted to \$10,020 million over the five-year period, fiscal 1974-78. During that period, 363 agriculture projects were assisted with Bank and IDA finance. As estimated at the time of appraisal, total agricultural lending during the five-year period is expected to help increase the incomes of more than 19 million farm families, or 115 million people. Additional annual production of cereals from Bank-assisted and IDA-assisted projects approved in the past five years could reach 13 million tonnes within the next 10 years, the annual report adds.

Other sectors in which Bank and IDA lending in fiscal 1978 topped the \$1,000 million mark were power (\$1,146.2 million) and transportation (\$1,092.9 million).

commitments for 1979

The annual report states that the Bank's 20-member board of executive directors—representing 132 countries—has agreed to commitments of \$6,800 million by the bank in fiscal 1979. The annual publication of the World Bank adds, however, that the figure will be reviewed in a few months' time to take account of the progress in discussions surrounding a general capital increase for the Bank. The annual report does state that the need for the Bank to have a general capital increase sufficiently large so as to permit its lending to grow in real terms over the next five years was endorsed during informal discussions—held in fiscal 1978—on the subject. According to the Bank's articles of agreement, outstanding loans cannot exceed the sum of the Bank's subscribed capital, surplus and reserves. Loans held by the Bank on June 30, 1978 amounted to \$37,796 million.

Disbursements to developing countries by the Bank and IDA totalled \$3,849 million in fiscal 1978, a drop of \$85 million, or about 2.2 per cent lower than in the previous year. A drop in IDA disbursements—to \$1,062 million, or 18 per cent below fiscal 1977 amounts—accounted for the decrease.

According to the annual report, the reasons for the lower-than-expected disbursements were varied. The publication, though noting that disbursements should pick up over the next few years as

*Money figures are expressed in US dollar equivalents.

borrowers and the Bank gain experience in the execution of "new-style" projects, adds that, in the short term, the Bank is actively seeking advice from several borrowers on how its disbursement procedures may be accelerated.

Primarily because of reduced disbursements, net transfers of resources by the Bank and IDA to member countries during fiscal 1978 (disbursements minus repayments of principal, interest and other charges) totalled $1,598 million, or $480 million less than in fiscal 1977.

While disbursements were lower in fiscal 1978 than in the year before, co-financing of Bank and IDA-assisted projects by official and private sources, and through suppliers' credits increased by 32 per cent over fiscal 1977.

co-financed projects

During the past year, 34 per cent of all Bank and IDA-assisted projects (81 in all) were co-financed. Funds totalling $2,778.7 mlllion (excluding finance supplied by Bank and IDA members to help meet the costs of their own projects), were provided to help finance the 81 projects. The Bank investment drawing the most money from co-financers during the year was for a project designed to expand the facilities of the Suez Canal. That $1,003 million project, assisted by a $100 million Bank loan, has received pledges of support totalling $432 million from several public agencies.

In fiscal 1978, the Bank's net income increased by 14 per cent to a level of $238 million. The figure was the second highest in the Bank's history.

Most of the Bank's net income is allocated to its reserves (which, on June 30, 1978 totalled $2,245 million), and to the operations of IDA. Since 1964, $1,225 million has been allocated to IDA, making the Bank the third largest contributor to the association's resources.

Actual borrowings by the Bank totalled $3,636 million in the past fiscal year. The borrowings were divided into 28 issues publicly offered or privately placed by the Bank. For the third consecutive year, the investment markets were the main source of borrowed funds; in these markets, the Bank sold 20 issues, equivalent to $2,398 million, or equal to nearly two-thirds of all borrowings during the year. Sales of issues in the investment markets were limited to Germany, Japan, Switzerland, the United States and the Eurobond market. The investment market in Germany was the largest supplier of borrowed funds to the Bank in fiscal year 1978. Nine issues were sold in the German market, equivalent to $894 million. Borrowings in the United States amounted to $750 million.

The borrowing programme for fiscal 1978 had been set, late in fiscal 1977, at $4,200 million. Of that amount, however, $600 million was borrowed before fiscal year 1978 began in order to take advantage of favourable factors in the United States investment market.

In fiscal 1977, borrowings by the Bank were $4,721 million.

In the Bank's articles of agreement, the institution's capital stock is expressed in terms of 1944 dollars—the US dollar of the weight and fitness in effect on July 1, 1944. On April 1, 1978, when the second amendment of the articles of agreement of the International Monetary Fund (the Fund) became effective, currencies no longer had par values, and the basis for translating the 1944 dollar into current US dollars no longer existed.

Thus, for the fiscal year ended June 30, 1978, the Bank has expressed the value of its capital stock on the basis of the special drawing right (SDR) (whose value is based on a basket of 16 major currencies) in terms of the US dollar as computed by the Fund on June 30, 1978. On that date, the value of the SDR was set at $1.23953.

In fiscal 1978, the Bank's subscribed capital was increased by SDR 1,070.7 million to a total of SDR 26,659.7 million. In terms of current US dollars, the Bank's subscribed capital stood at $33,045.5 million on June 30, 1978.

II
GROWTH OF DEVELOPING COUNTRIES CONTINUES

The World Bank reports that economic growth in developing countries continues to outstrip that in the industrialized world. But the Bank, through its annual report, warns that the underlying causes of inadequate food production in developing countries have not been eradicated, and that massive rural poverty remains a "continuing feature" in most of the Bank's member countries.

Economic growth in 1977 in developing countries was stimulated by a number of factors, the Bank says. They include an increase of about 14 per cent in the dollar value of exports that reflected upward movements in the prices of a wide range

India and the World Bank

India received $1,281.5 million from the World Bank and its affiliate, the International Development Association (IDA), during the fiscal year ended June 30, 1978, according to the Annual Report of the World Bank. This was $531.5 million more than Bank and IDA commitments of $750 million in fiscal 1977.

During fiscal 1978, India received $951.5 million from IDA on concessional terms and the balance from the World Bank. The Association's credits are for 50 years, free of interest, but carry a service charge of ¾ of one per cent.

Bank and IDA assistance to India during fiscal 1978 was devoted to agriculture and rural development ($664.5 million); electric power ($305 million); industrial development finance companies ($105 million); telecommunications ($120 million) and urban development in Calcutta ($87 million).

(Money figures are expressed in US dollar equivalents).

of goods. Some primary commodity prices advanced sharply—led by beverages, fats and oils, and a few metals—and sales of manufactured goods increased, as well. Recovery from the mid-decade recession was made possible, the Bank adds, by the fact that many developing countries made critical internal economic adjustments necessitated by the world-wide economic shocks that preceded the recession period.

Overall economic growth in developing countries has enabled these countries to reduce their aggregate current account deficit from $37,300 million in 1975 to $22,000 million by the end of 1977. In addition, the aggregate trade deficit of developing countries, at $12,700 million in 1977, was but half the average for the years 1974 and 1975.

Growth in developing country exports, the Bank suggests, is not a "transitory phenomenon" Rather, it is "likely to continue—barring increases in trade barriers." The annual report notes, however, that developing nations "are becoming increasingly concerned about the ability of policy-makers in the industrialized world to withstand pressures for the imposition of new quantitative restrictions" on trade.

obligation of the rich

The Bank concludes that what is feasible ("the most important way in which developed countries can contribute to trade expansion") is for the richer nations to refrain from imposing new restrictions or from tightening up on old ones. The developing countries, which today buy 28 per cent of total manufactured goods exports from industrialized nations, can help themselves, the annual report says, by eliminating measures that have the effect of discriminating against their own exports. Such measures include those that protect aging "infant" industries and that overvalue exchange rates.

The World Bank states that if industrialized countries do not succumb to protectionist impulses, and that if developing countries accelerate their export promotion policies, the value of exported manufactures from developing countries could grow by some 15 per cent yearly, and could rise by as much as $21,000 million by 1985.

Despite gains made by the world's poor countries, the Bank notes that the basis of continued growth is a fragile one, and that the alleviation of poverty and the elimination of social and economic problems cannot be promoted solely by expansive trade, rising commodity prices, and reduced current account deficits.

accelerated growth

The Bank report said: "The common thread of developments in south Asia during fiscal 1978 has been the acceleration of economic growth in much of the region and the improvement in the availability of resources that has followed in its wake. Since the Second World War, economic growth in the region has been held back by lack of resources—foreign exchange, foodgrains, electricity and essential raw materials. Although resolute development efforts have led to significant improvements in the production structure and the quality of the labour force, economic growth has been sluggish in most years barely exceeding the rate of population growth. In the last three years, however, economic growth has generally been somewhat ahead of population growth in the countries of the region, with the exception of Pakistan and Nepal. In fiscal 1977, there was a slight pause in growth, but in fiscal 1978, a growth in gross domestic product for the subcontinent as a whole is likely to approach that of fiscal 1976, which, in turn, had been the year of highest growth during the present decade."

The annual report added that the main factor in the recent growth of the region's economy was the bumper crops of foodgrain in India, Bangladesh and Sri Lanka, a recovery of cotton production in Pakistan, relatively high prices for traditional export products such as jute and tea, and continued growth of non-traditional exports. "The resource position of the region was also bolstered last year by favourable development on external account. These developments included an increase in export earnings of about 10 per cent, increased earnings from tourism in Sri Lanka, India and Nepal, and most important, increased remittances, par-ticularly from workers who have migrat to west Asia. In only a few yea these remittances have become the sin most important source of foreign e change for India and Pakistan, and th importance is rapidly rising for Bangl desh, as well", the annual report said.

The Bank report said: "In the wake major political changes in several sou Asian countries, an intense scrutiny existing social and economic policies h started. It has already resulted in impo tant measures, such as liberalization import and investment controls, great recognition of the role of exports a reduced emphasis on import substitutio efforts to improve the price structure agricultural products, and importan being placed on adequate commercial pe formance of state enterprises.

role of public investment

"Governments are reappraising th role of public investment in the ec nomic development process. Throug out the region, this reappraisal is leadi to a shift away from an earlier empha on heavy industry and certain types infrastructure, in favour of agricultur irrigation, rural development, small-sca industry, education and health. The shi in the emphasis in public investment co responds to a new perception in th region, both of what is required to mak an economy grow, and of how the nee of the poorest might be met."

Foremost among the problems facin developing countries is that of ensurin that agricultural production expands fa ter than population. The annual repo says that the world food situation h improved since the general food crisis 1974. But the basic fact remains tha according to the Food and Agricultur Organization of the United Natio (FAO), per capita food production in a developing regions, except Asia, is le than it was two years ago.

Even in Asia, the statistics for whic are dominated by India, the Bank ack nowledges that it is difficult to tell ho much of the increase in agricultural pr duction can be credited to longer-lastin improvements, and how much has bee

ue to a string of a few years' good eather. A "particularly difficult" situation exists in Africa, the annual report dds, where, according to the FAO, the 977 per capita food production index is 0 per cent below the level of the period, 961-65.

The aggregate food deficit in developing ountries could rise to as much as 145 nillion tons by 1990, the annual report varns. And, of that amount, a deficit of 0 million tons may be in the low-income, ood-deficit countries of south Asia and Africa.

"When such projected deficits are compared with the projected foreign exchange earnings of these countries, there is little prospect that this amount of food deficit can be secured on commercial terms," the annual report goes on to state. It adds:

"The consensus, therefore, is that these countries must grow their additional food on their own soil, and that hard policy decisions need to be taken to make that possible.

"Regrettably, there is every indication that massive rural poverty, sustained and spurred on by an increasing rural population, limited land resources, and inadequate supporting systems, is a continuing feature in most of the Bank's member countries."

Greater emphasis in the past few years on the problems of rural poverty and an expansion of national and international efforts focussed on the rural poor are particularly welcome, the World Bank's publication reports. But these initiatives are still relatively recent, it adds, and are yet to be fully evaluated in terms of their impact.

Although a beginning has been made, the Bank concedes that "the impetus to rural development remains small and patchy in relation to the scale of the problem."

Future economic growth in the developing world—even modest growth—can only be assured, the 132-member institution says, if the "long-term trend towards closer international relationships among developed and developing countries continues."

There is no need for a competitive confrontation between the two groups, the Bank concludes, for "if the world has learned anything from the lessons of the past five years, it is that the future prosperity of the developed and developing countries have become linked, and that the links, though recently forged, are not likely to be broken easily."

The state and trade unions in Britain

London

V. R. Bhatt

What makes trade unionism so fascinating in Britain is that its link with the Labour party is so close as to give it a political identity which does not exist as visibly in other countries. Yet this trade union link with the Labour government, says the author, has not produced a clean slate in industrial relations in that country.

IT WAS a Conservative leader, Reginald Maudling, who first made popular the concept of "the Monopoly Power of Organised Labour" as a new element in the economic polity of democracies, particularly the more developed ones. The retort by trade unionists and leftwingers to this was that it was a long delayed development which would check and balance "the monopoly power" of capitalism. This exchange highlighted the tendency to perceive the two, labour and management, as being in a state of confrontation, which is the extension of the concept of class war. Fortunately, in practice, the relationship between the worker and the executive even in the most industrially disturbed countries of the west has been, except temporarily, one of understanding of the importance of the interdependence of the two for their mutual (and national) benefit. But where a trade union movement is integrated with a major political party, it becomes a powerful extra-parliamentary pressure group which can influence the economic system and even the constitution.

What makes trade unionism so fascinating in Britain is that its link with the Labour party is so close as to give it a political identity which does not exist as visibly in other countries. True, trade unions all over the west have been offshoots or maintain affinity with political parties, Communist, Socialist or Conservative. But the historical development of trade unions and the Labour party in the UK had the same origin in their challenge to the establishment of landed gentry who dominated the two big parties of Conservatives and Whigs and the entrepreneurs who sided with the establishment.

As the Labour party has held office for ten years in the last 15 years, its link with trade unions has not only been strengthened but also widened so as to give trade union movement, a role in policy making in economic and even in the taxation field. The link has had its advantages for the party and even the nation as a whole but also some grave dangers.

Although trade unionism in Britain is a powerful force in the economy, it doesnot cover the entire labour force. Of the 22.5 million workers or employees (excluding the self-employed and armed forces) only 12 million are members of trade unions. But 77 per cent of these belong to the 25 largest trade unions and the rest to over 450 smaller trade unions. There are officially Conservative trade unions whose membership is not widely known. In effect therefore a trade union is by definition a part of the labour movement.

The so-called "monopoly" power that the trade unions possess derives from their membership in all the big manufacturing, mining, transport and service industries. By use of the strike weapon in a dispute with the employer (which in most key sectors such as electricity and

gas, railway, air or road transport, and coal is the state or a local authority), they are capable to immobilising the entire industry, business and society. The power of organised labour was showm in its most terrifying form in "the May revolution" of 1968 in France, when for four weeks no trains ran, no factory and no postal services functioned, the people being able to survive only by striking workers allowing the movement of food, and the essential water and power supplies. Its greatest political impact was the coalminers strike in Britain, which forced the country to a three-day working week and to the resignation of the Conservative government under Edward Heath.

financial strength

The financial strength of the British unions, whose average annual membership subscription is £13.96 per head (Rs 220) is evident from the statistics of the 25 largest unions whose income from members subscriptions for 1977 was £103 million, nearly double the income of four years ago. The general funds they hold in their accounts totalled £120 million at the beginning of this year. Much of their income is spent on administration but politically the most significant outlay is the contribution they make to the Labour party funds, particularly to fight the elections. As estimated 70 to 80 per cent of election expenditure of the party is union financed. Probably a similar percentage of Conservative party's election funds come from donations from the private sector business, banking and industry. The financial bases of the two major parties in Britain underlines the class or confrontary aspect of British politics.

The British trade unions have their own national centre in the Trade Union Congress (which also they finance) to which are affiliated 113 trade unions which together represent 11 million workers or 92 per cent of all trade unionists in UK. The TUC is for the worker what the Confederation of British Industries (CBI) is for the private sector, both being the accredited negotiators or representatives of their sides. But since trade unions are an integral part of the Labour movement, the dominant factor in the economic relationship with the government today is the TUC as Labour is in power. It will be the CBI under a Conservative government with this difference that it is not so closely integrated with the Conservative party.

bloc votes prevail

The trade unions have a number of ways to influence the Labour party and government. It is their bloc votes that prevail at Labour party annual conferences in policy making resolutions as also in the election of national executive. In practice, the Labour govenment is not committed to conference resolutions and have in the past rejected trade union resolutions against British entry into the Common Market and conference resolutions on defence and NATO. But the union influence in the party tends to project it as the extreme leftwing which it is not in reality. Indeed under the impact of the recession that grips Britain and most of the western world, the Callaghan government has adopted in the main orthodox economic policies such as cuts in state public expenditure and control of the money supply and recently some relaxation of taxes on the higher incomes. It has abandoned further nationalisation in the private sector and strangely enough recently was supported by union opposition to nationalise the big private banks and insurance companies, largely because of these institutions' white collar workers.

The greatest advantage that the link with trade unions has brought the Labour government and the nation is its success in restraining wage increases by voluntary agreement with the TUC. For two years, the maximum limit decided by the government (10 per cent currently) has been observed generally both in the public and the private sectors even though in some cases with resentment. It was achieved by the government as the employer in the public sector (which has over half of the trade union members) rigorously maintaining the limit and thereby setting the example in the private sector. Where the limit was sought to be evaded by private employers, the government flourished the whip of withholding state contracts or purchases.

There is no doubt that inflation has been contained, (reduced from 17 per cent to 8½ per cent in 18 months), the balance of trade rectified and exports increased as a result of this wage restraint. The trade unions take pride in having suspended the right of free collective bargaining, their most cherished principle, for the national good. The Callaghan government insists on continuing the voluntary restraint or the social contract, when the present contract ends—the limit this time being five per cent. But the Trade Union Congress at its annual meeting on September 4, rejected the limit but simultaneously opened the election campaign (which was expected in October but will not take place) by a rallying call to vote Labour and return Mr Callaghan to 10 Downing Street. This was a change in TUC policy as political campaigning is not done from the Congress platform so as not to offend the non-Labour unionists such as the Conservatives and of the civil servants, and white collar workers who are now flocking into the trade union movement.

unhealthy precedent

But the trade union restraint has been at a cost to the democratic norms. In order to persuade the trade unionists to agree to the social contracts, the Labour government has had to negotiate the extent of cuts in public expenditure and taxes with them. This has set an unhealthy precedent in that a government elected by the people should negotiate with an extra-parliamentary group (even though numerous) in deciding on taxes and public expenditure, the sole preragative of the government and the parliament.

The conservative opposition says that its concern about trade union power arises as parliamentary democracy will be weakened by the intrusion of extra-parliamentary groups entering into the government in vital sectors of taxation and economic policy. The temporary gains of such an exercise, they stress are at the cost of the democratic system.

It must be noted that the trade union link with the Labour government has not produced a clean state in industrial relations. The apparent unity of the unions in the TUC barely covers the internal trade union rivalries and the vulnerability

of the union members against a few militant or ideologically motivated shop stewards or union executive members. Most of the strikes which have occurred this year had been on the question of differentials and by unofficial strikers. Differential disputes in the biggest automobile complex in Britain (the state subsidised Leyland) have led to 346 stoppages in seven months, losing the company hundreds of millions of pounds worth of production. An example is that 32 toolroom workers struck (unofficially) in a Leyland plant on a complaint that they were paid £7 less than toolroom workers in another car factory. They have rejected the company's offer to regularise all wages by next November. Their union has threatened to expel them if they do not return to work but their shop-steward leaders threaten retaliation by calling out all toolroom workers thereby shutting down the whole complex.

There have been many instances of a few key workers stopping the entire production by walking out for wage increases which were far above agreed limit and would if conceded disturb other differentials between different grades and create industrial anarchy. Frequently the strongest, that is the most strategically placed workers, use their power to immobilise industries. In such circumstances the weaker sections suffer as also the principle of social justice which is sacred to trade unionists and socialists.

Both Labour and Conservative government attempts to introduce legislation to outlaw unofficial strikes or militant ruthlessness have failed. The Labour governments "In Place of Strife" white paper outlining legislation to prevent or at least hold up strikes and improve conciliatory and arbitration proposals had to be withdrawn because of left-wing and trade union opposition. The Conservative government's Industrial Relations Act which sought to remove certain restrictive practices such as closed shop and to make contracts entered into in collective bargaining enforcible has been repealed under the Labour government after it had led to confrontation between the Conservative government and unions which the latter won in the coalminers strike.

What is needed ideally is the eschewing of politics in unionism but reforms in the functioning and the structure of the unions to provide workers their rightful due can help. Comparable changes in the management to improve communication with unions and workers and to create mutually beneficial interdependence are also called for.

Is the US still a low inflation country ?

Unlike the other traditionally low-inflation countries, the United States has given wholehearted support to the recovery from the recession and has followed certain economic policy goals that tend, as a side effect, to aggravate inflation. This is made out by the Morgan Guaranty Survey in its August 1978 issue. It says giving low priority to the control of inflation in economic policy-making is risky.

THE SEVEN-nation economic summit in Bonn in mid-July focused world attention on the twin problems of economic growth and inflation. Six of the leaders were urged to stimulate growth. President Carter was asked to concentrate on reducing inflation (as well, of course, as reducing oil imports). The reason for the difference in emphasis is readily apparent: the inflation performance of the US has deteriorated sharply relative to that of other industrial countries. This development is of especial concern because it represents potentially a reversal of the United States' traditional position as a low-inflation country. This, in turn, has implications for the value of the dollar in foreign exchange markets that are particularly worrisome, given the role of the US dollar as a reserve currency and a primary medium for international transactions.

For most of the past 25 years, as the chart on the next page shows, inflation in the US has run consistently below the weighted average for 19 other industrial countries. In other respects, however, the pattern of inflation in the US and in other countries has tended to be remarkably similar. Throughout the 1950s and the 1960s inflation both in the US and on average in other countries tended to accelerate, although at a moderate pace. This acceleration, however, culminated in an explosive burst of inflation in the early 1970s. During the last three years inflation has come down from these peaks, but it remains above the worst experience of the previous two decades in the US and abroad.

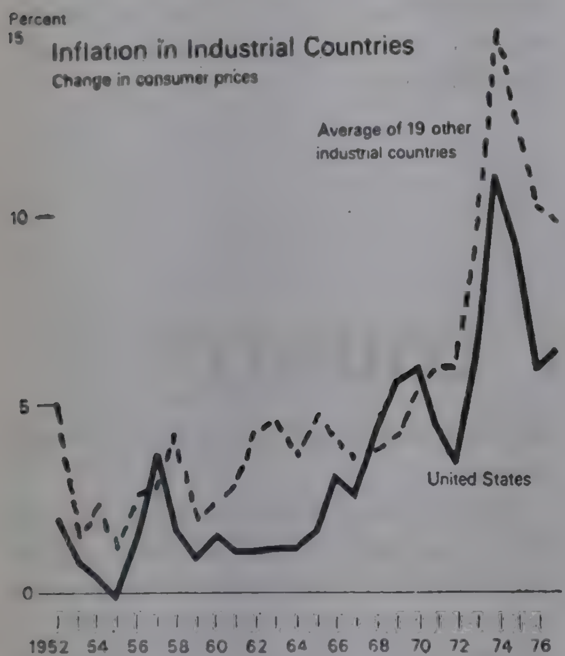
The individual inflation experiences of the United States and the 19 other industrial countries (which make up the average in the chart) are shown in Table I. Between 1951 and 1970, West Germany had the best record, with an average inflation rate of 2.2 per cent per year. The US along with Canada, Switzerland and Belgium were close behind with inflation rates of 2.4 per cent to 25 per cent. These five countries were the only ones to experience an average inflation rate of less than 3.0 per cent.

The early 1970s were a period of sharply higher inflation rates for all 20 countries. In fact, the country with the lowest inflation rate during the 1971-75 period (West Germany, at 6.2 per cent) had a higher inflation rate than the country with the worst inflation record during the 1951-70 period (Spain, at 5.7 per cent).

In general, however, the low-inflation countries of the earlier period remained the low-inflation countries of the 1971-75

period. Four of the five countries with the lowest inflation rates between 1951 and 1970 were in the lowest five during the 1971-75 period (Belgium was replaced by Austria). West Germany again had the lowest inflation rate and the United States continued in second place.

During 1976 and 1977 the range of inflation rates experienced by industrial countries widened. Switzerland was successful in reducing its inflation to an average 1.5 per cent rate—the only country able to do better in the 1976-77 period than it had between 1951 and 1970—and West Germany reduced its inflation rate substantially to 4.2 per cent. Five other countries including the United States were able to slow their inflation by



NOTE: Inflation composite of 19 countries is an average weighted by 1976 GNP valued at 1976 exchange rates.

The Morgan Guaranty Survey

lesser amounts. However, in 13 out of the 20 countries inflation continued to accelerate.

Again, however, the ranking of countries on the inflation scale was basically maintained. Four of the five countries with the lowest inflation experience during the earlier two periods enjoyed decelerating inflation in 1976-77, while only three of the 15 higher-inflation countries were able to stem the pattern of acceleration.

Although the level of inflation accelerated sharply in the United States during the 1951-77 period, there was no significant deterioration in the US performance relative to that of other countries. In 1976 and 1977 West Germany and Switzerland were able to achieve significantly lower inflation rates than the United States, but the US position relative to the average of other countries did not deteriorate. However, when the most recent experience is considered, the US position relative to a number of other countries appears to be slipping.

lower trend

The inflation rates for the 12 months ended June 1978 (Table I) indicate that a generalised trend towards lower inflation is finally beginning to appear. Sixteen of the 20 countries recorded improvement in their inflation rates, including many of the countries with the worst inflation records. The United States, however, has experienced an acceleration to an inflation rate of approximately 7.5 per cent higher than the average of the other countries. Nine countries experienced lower inflation rates than the United States—six by more than two percentage points.

Changes in exchange rates are one factor that may have influenced shifts in relative inflation rates during the past year. An increase in the value of a country's currency in foreign exchange markets can have a moderating impact on inflationary pressures in a number of ways. Most directly, it lowers the price to consumers of imported goods. In addition, it can reduce the demand for domestically produced goods—both goods for export and goods that compete domestically with imported goods—thereby moderating price pressures more generally. An increase in the value of a currency also reduces business costs by lowering the prices paid for imported raw materials. This can be important for a country such as Japan which imports most of its raw materials.

In the two-year period prior to mid-1977, the value of the dollar relative to the currencies of the other major low-inflation countries remained relatively constant (Table II). Consequently, exchange-rate movements had little impact on relative inflation performances, and the improvement in the relative German and Swiss inflation rates that occurred during that period cannot be ascribed to exchange-rate movements. However, in the past year the US dollar has fallen against the currencies of all the low-inflation countries. In the case of Japan, where the yen rose by over 27 per cent, it is clear that the appreciation of its currency was a primary cause of the improvement in its inflation rate (which, in fact, remained well above that in the US until after its currency began to rise). For example, the appreciation of the yen caused over a 25 per cent decline in the yen price of oil. The 10 per cent to 12 per cent appreciations of the currencies of Austria, Belgium and the Netherlands may well also have been important in the decelerations in their inflation rates from above that in the US during the 1976-77 period to less than half the US rate.

Generalisations about the course of

TALLE I
The Pattern of Price Inflation
(Consumer prices—per cent change at annual rate)

	1951 thru 1970	1971 thru 1975	1976 thru 1977	12 months ended June 1978
United States	**2.4**	**6.8**	**6.2**	**7.5**
Canada	2.5	7.3	7.8	9.2
Japan	4.9	11.5	8.7	3.6
W. Germany	2.2	6.2	4.2	2.7
Switzerland	2.4	7.7	1.5	1.1
Belgium	2.5	8.4	8.1	3.7
Italy	3.2	11.4	16.9	12.3
Netherlands	3.6	8.6	7.6	3.2
United Kingdom	3.7	13.0	16.2	7.4
Ireland	4.3	13.2	15.8	6.2
Austria	4.4	7.3	6.4	3.3
France	4.8	8.9	9.4	9.0
Spain	5.7	12.1	21.0	22.1*
Sweden	4.4	8.0	10.9	9.3
Norway	4.5	8.4	9.1	7.4
Denmark	4.5	9.3	10.0	10.6
Finland	4.9	11.7	13.5	8.6**
South Africa	3.2	9.3	11.2	9.2
Australia	4.1	10.2	12.9	7.9
New Zealand	4.1	10.2	15.6	12.2

*12 months ended May.
**12 months ended April.

inflation in different countries are risky, as each country has individual characteristics that make comparisons difficult. For example, major economic develoments such as the impact of North Sea oil on Norway's economy are critical to local inflation developments. Also, the extent of government involvement in the wage-and-price setting process varies widely. On one extreme are countries such as Canada and Britain that have had extensive wage-and-price controls in effect recently. Other countries—e.g., West Germany and the United States (since 1974)—have not used any formal means of influencing private sector wage-and-price decisions. The institutional and political framework in which these policies operate, moreover, varies so greatly among countries that the experience of one cannot be easily compared with another.

However, with these reservations in mind, one of the major economic variables that is a natural candidate for consideration along with a country's inflation record is its "real" (adjusted for inflation) economic growth rate. Significantly, the US experienced an average growth in real GNP during 1976 and 1977 (5.3 per cent) that was substantially above that of any other industrial country with the exception of Japan. In addition, US growth in 1978 is expected again to exceed substantially the real-growth rates of almost all other industrial countries. This stronger real-growth experience has probably made control of inflation more difficult in the United States, but exactly how important it was in the deterioration in relative performance is less clear.

TABLE II

Exchange Rate Changes

(Per cent change vs US dollar)

	Mid-1975 to mid-1977	Mid-1977 to mid-1978
Japanese yen	+7.6	+27.5
West German mark	—0.6	+13.0
Swiss franc	+0.2	+32.1
Austrian schilling	—1.1	+11.9
Belgian franc	—3.1	+10.4
Dutch guilder	—2.8	+10.9

If growth rates are measured over a longer time horizon to take account of the severity of the recession in different countries as well as the strength of the ensuing recovery, growth in the United States looks less exceptional. Since 1973, which was the last year in which all the industrialised economies were operating at or near full employment, the United States' growth rate has been about in the middle of the pack.

lack of correlation

Table III indicates that among the countries with the lowest real-growth rates during the last four years are some countries with the lowest inflation rates (e.g., West Germany and Switzerland) and some countries with very poor inflation records (e.g., Sweden and Denmark). This lack of simple correlation, however, does not indicate that inflation and growth are necessarily unrelated, as the results reflect the interaction between growtb and inflation as well as the substantially different policy reactions to the explosive inflation situation that all countries faced in 1973 and 1974. West Germany and Switzerland, for example, committed themselves very early to controlling inflation and have maintained that commitment during the economic recovery that has followed. It now appears that such a commitment—as well, of course, as favourable exchange rate movements in the past year—was largely successful in reducing their inflation rates, but the projected real-growth rates for 1978 indicate that even four years after the recession these countries have not been able to achieve as good a real-growth performance as they had hoped their improved inflation performance would permit.

At the same time, the countries that were unable to control inflation but were successful in muting the recession's impact on real growth are now faring no better. In countries such as Sweden and Denmark, continued rapid inflation is making real-growth rates difficult to achieve and is forcing policy to shift more toward anti-inflation efforts.

How does the combined inflation and real-growth record of the United States compare with that of other industrial countries? West Germany and Switzerland achieved lower inflation in recent years but also lower real growth. Significantly, the importance of "guest" workers in those economies makes that trade-off more attractive, because these workers serve to isolate, at least partially, domestic unemployment from low growth (foreign workers are simply let go and they return home).

TABLE III

"Real" Economic Growth in 20 Countries

(Average annual per cent change)

	1973 to 1977	1978 estimate
Norway	4.6	4.0
Japan	3.0	5.5
Canada	3.0	3.5
Australia	2.8	3.5
South Africa	2.7	2.0
Austria	2.7	1.7
France	2.6	3.0
Spain	2.6	2.0
Ireland	2.5	5.5
Netherlands	2.4	2.2
United States	**2.0**	**3.8**
Italy	1.9	3.0
Belgium	1.5	2.0
West Germany	1.4	2.8
Denmark	1.4	1.8
Finland	1.2	0.5
Sweden	1.0	0.5
United Kingdom	0.5	2.8
New Zealand	0.4	—0.5
Switzerland	—0.8	2.5

If the United States had experienced the same growth rate as Switzerland has since 1973, the unemployment rate in the United States would be well into double digits (in Switzerland it is only one per cent) and growth equal to West Germany's would have resulted in an unemployment rate in the United States of over seven per cent. Given the structural differences between the US economy and the economies of Germany and Switzerland, it is far from clear that German

and Swiss policies can appropriately be employed in this country.

Some countries (for example, Austria and the Netherlands) have managed to achieve more rapid growth rates (measured from the 1973 cyclical peak through 1977) than has the US while at the same time achieving more progress on the price front. the US, however, is experiencing much more rapid real growth in 1978, and this may in part at least be responsible for the recent improvement in relative inflation records among those countries. In particular, higher real growth through the stimulus it gives to imports may have aggravated the US trade deficit and contributed to the appreciation of these currencies against the US dollar. But, again, structural differences are significant, so caution is needed in drawing conclusions.

Perhaps the most striking generalization that inflation-growth comparisons support is the harsh one that no industrial country has found a solution to the inflation problem that has not involved a heavy cost in lost output. Countries whose policies emphasized maintenance of output following the 1973-74 surge in inflation have been unable to continue growing in the face of their high inflation rates. The countries that took strong anti-inflation actions soon after inflation spiralled (the US included) have been unable to generate strong recoveries from the steep recessions that resulted from those earlier policies without kindling inflation anew.

The economic policies of the United States in the three years since the recession stand out from those of the other traditionally low-inflation countries in the low priority given to inflation. This is indicated not only by the United States' more wholehearted support of a rapid recovery from the recession but also by its pursuit of other policy goals that tend, as a side effect, to aggravate inflation. Most often mentioned by businessmen in this regard is the proliferation of federal regulations in recent years. These regulations have been introduced in such quantity and have been revised so often that they have created additional uncertainty and delay in business planning that threatens to make effective cost control very difficult. The Council on Wage and Price Stability estimates that new and revised federal regulations add $\frac{3}{4}$ of a percentage point to inflation each year. Whatever judgment is made about the trade-off between inflation and growth, the intransigence of the inflation problem in the face of all the various policy approaches pursued by industrialised countries indicates that giving such a low priority to the control of inflation in economic policy making is risky.

The revival of concern about inflation that has been evident within both the administration and Congress in recent months is an indication that decisions in the United States in coming months may place greater emphasis on anti-inflation policy. A shift in this direction is vital and, surely, long overdue.

It is undoubtedly in India's interest that the current political disturbances in Iran should end early and in a way which really secures the genuine stability of the state. Peace in the Gulf region is precious to us and internal turmoil in Iran, if it lasts much longer, would provide temptations to external forces which may have an interest in destabilizing governments in west Asia. The rule of the Shah has on the whole been a progressive and benevolent autocracy, but it has now become clear that he will not be able to carry the Iranian people with him in his purpose of institutionalizing it into an extended family tradition. Incidentally, it is a sobering thought that even absolute monarchs cannot count on power passing on to their progeny as an automatic legacy (Mr Sanjay Gandhi and others may please note).

The Shah is not only a patriot who has been sincerely labouring for the progress and welfare of his country and his countrymen, but has also been displaying some admirable qualities of leadership in discharging his responsibilities as he sees them. It should therefore be assumed that the chances are better than even of his regaining control over the political tides in Iran in time to be able to restore a fruitful working relationship between the government and the governed. Already he is showing commendable flexibility in trying to come to terms with the upsurge of Islamic puritanism which is challenging many of the modernizing processes which he has been introducing into Iranian life. For instance, in the course of reorganizing his government, he has just abolished the ministry of Women's Affairs, a step which must have saddened the heart, particularly, of the Shah Banu, who has been involving herself so deeply in the raising of the social and economic status of women in that country.

Indeed the Shah has taken his political priorities so seriously that even his imperious nature has been subordinated to compromises or tactics which must be galling to his *amour-propre*. For instance, he has issued orders to his immediate relatives to refrain from involvement in public and private business, in an attempt to de-fuse what is becoming an explosive issue of corruption in the corridors of family power (Mr Kanti Desai and others may please note).

Like so many other papers in our country, *The Times of India* has also editorialized on Iran. In its Delhi edition of September 6, this surprising observation occurs: "The *bitter truth* is that the more the Shah liberalizes the regime the bolder the opposition becomes" (italics mine). Why "bitter"? Does the editorial sanctum in Dhobi Talao (or, is it the editorial 'sub-sanctum' on Bahadur Shah Zafar Marg?), in its wisdom, believe that liberalization remains sweet only so long as the opposition does not avail itself of it? The editorial, indeed, does not conceal its disapproval of the Iranian press for taking advantage of the relaxation of press censorship "to unleash sharp criticism, not yet of the Shah himself, but of people who work in close collaboration with him."

All this is no doubt extremely naughty behaviour on the part of those politicians or sections of the press in Iran who mulishly refuse to play the liberalization game according to rules handed down by His Imperial Majesty from the Saadabad palace. In fact the Iranian people seem to be behaving as unreasonably as a majority of the Indian electorate did in March 1977 when it acted on the assumption that the general election gave it an opportunity to vote Mrs Gandhi and her party out of office if it would. Perhaps *The Times of India* should go international immediately and bring out an edition from Tehran to help the misguided among the Iranians to comprehend that liberty is not licence and that responsible journalism is journalism that need not be officially censored because it is so good at censoring itself.

The expected has happened. Dr Subramaniam Swamy has achieved a breakthrough in our relations with the People's Republic of China within days of his arrival in that country. I do not know whether he or his wife, who has accompanied him, plays ping pong, but then, the Chinese now seem to be taking to other games too. In any case, Dr Subramaniam Swamy has evidently had no difficulty in bridging the communications gap. As a matter of fact, it only took him two hours of talks with the former Foreign minister, Chi Peng-fei, now general secretary of the National People's Congress, to settle that the processes of normalization of relations between the two countries and the negotiations on the border dispute could be taken up simultaneously. Dr Subramaniam Swamy has explained that this is a famous victory since China has hitherto been demanding that the two countries should normalize their relations before taking up a discussion of the border dispute. Mrs Gandhi may not realise it, but Dr Subramaniam Swamy has helped Mr Morarji Desai to put one over her. What the Indian government's ambassador in Peking, who was hand-picked by her when she was prime minister, has not been able to do all these months, Mr Desai's emissary, going to China on what has been described as a private visit, has been able to accomplish in less than a week.

Before Dr Subramaniam Swamy left for China, the secretary in the EA ministry visited him at his residence to brief him. When he returns from China, bringing the good news from Ghent to Aix, the minister for External Affairs will no doubt call on him to be briefed by him. This is how the wheel of fortune turns. If I were Mr Vajpayee, I would not be too easy in my *kursi*. After all there must be a major reshuffle of the cabinet, sooner or later, and how better can the prime minister express his frown or favour than by taking away the External Affairs portfolio from Mr Vajpayee and delivering it into the hands of Dr Subramaniam Swamy?

VB

MOVING FINGER

Banking for people

Accent on rural banking

S. P. Chopra

THE NATIONALISATION of 14 leading commercial banks nearly nine years ago was justified by the then prime minister, Mrs Indira Gandhi, on the ground that it would check the growth of monopolies and would prevent a disproportionate share of the community's financial resources going to big business houses besides ensuring to agriculture and small-scale industry an easier and more adequate access to bank finance. Each one of the banks which were nationalised had deposits of Rs 50 crores or more and they together accounted for about 57 per cent of the aggregate bank deposits. The impression was created that the dividing line between the nationalised and non-nationalised banks was the level of deposits at Rs 50 crores but later events revealed that the government had no desire to nationalise any more private sector banks even if their deposits exceeded this land-mark.

Currently, there are banks in the private sector whose deposits have risen above the mark of Rs 200 crores and the Janata government does not propose to take them over. Earlier, in 1976, there were a number of banks in the private sector whose deposits had crossed the Rs 150 crores mark and the Congress government headed by Mrs Indira Gandhi did not decide to nationalise them. This tended to support the viewpoint that the nationalisation of banks had been decided upon by the former prime minister, Mrs Indira Gandhi, to score a point over the Congress High Command with which she had had a confrontation in 1969 and not for the reasons stated in her public pronouncements.

The public and private sector banks have both made phenomenal progress during the past nine years but a major casualty during this period has been "customer service". The public sector banks in particular have turned grossly inefficient and in part the success of the private sector banks lies in this deterioration of customer service by the nationalised banks. According to Mr K. Warner,* Regional Director, South Asia, Grindlays Bank Ltd, the root cause of the falling standards of customer service is "the system in vogue" which cannot cope with present-day volumes of work in the public-sector banks. The growing inefficiency stemming from this has been fostered by human callousness, states Mr Warner; in his view "innovation has been stifled by the heavy hand of habit." Our country has to go a long way in making use of computers for improving banking services. The banks in developed countries have revolutionised banking operations through the liberal use of computers (Mr S.S. Rohatgi's article on computerised banking appearing elsewhere in this feature explains the different types of services being currently handled by computers in the advanced countries).

Drawing upon the conclusions arrived at in a recent report of the working group on customer service in banks, Mr Warner has stated that the information thrown up by the group does not reflect poor customer service in banks, as alleged by the critics. He has pleaded that "any suggested improvements should be carefully weighed against the projected escalation in cost." Understandably, he prefers improvement in customer service resulting from human diligence and not from added risk. He has therefore put forward a few suggestions which can improve the working of banks without adding any new financial burdens. First, the Teller system should be introduced on a selective basis "with stringent stipulations as to the minimum balance that must be maintained before such a facility should be allowed."

Second, ledger posting should be mechanised, though the best solution is computerisation of accounts. Third, in order to minimise complaints regarding the updating of pass books, the bank should impress upon the customers the importance of regularly submitting the pass book. Fourth, the bankers should make a conscious effort to tone up their service in regard to the collection of outstation cheques. Fifth, the practice of writing drafts by hand should be given up; they should be typed instead. Having put forward these suggestions (and a few others) to tone up the working of banks in the country, Mr Warner records his admiration for the chairmen of public sector banks in these words: "It has been my long experience that the chairmen of the 14 public-sector banks work extremely hard for long hours every day without, in a number of cases, having had any leave at all for some years at a stretch. They should be commended, not criticised."

Perhaps Mr Warner forgets that the average customer hardly knows or meets the chairman of his bank. He has

*"How to Improve Customer Service in Banks"; *Capital*, June 8, 1978.

to deal every day with a clerk in the bank who in nine cases out of ten is rude, ill-informed, and always creating problems for the customer instead of helping to resolve them. There is a feeling among the customers that the salaries (including dearness allowance and over-time) in the public sector banks have risen so much in recent years that they have swollen the heads of not only the clerks but also the peons. While the wage bills of the banks have grown enormously, and the service charges have also increased significantly the customer is disillusioned with the service he is getting from the public sector banks in particular.

Undoubtedly one of the reasons for the declining standards in customer service is the exponential rise in the number of bank branches since June 1969. The State Bank of India multiplied the number of its bank's offices almost three times from 1,569 in June 1969 to 4,742 in 1978. Its associates did equally well by increasing the number of their offices from 893 in June 1969 to 2,164 in April 1978. The 14 nationalised banks had almost the same percentage rise from 4,134 offices to 13,553 offices during the period under reference. The private sector scored over the public-sector banks in percentage terms as the number of their offices rose from 1,666 in June 1969 to 5,782 in April 1978.

The regional rural banks which started operating during the emergency have swelled their number to 1308. Thus, the branches of all commercial banks have multipled more than three times from 8,262 in June 1969 to 27,549 in April 1978. Presumably, the banks (excluding the small number of private sector banks) have not been able to train their staff at the same rate at which the new recruitment is taking place. Some of the experienced bankers are also reported to have moved over from the public-sector banks to the private sector banks because of increased opportunities available to them there for the use of their talents. Gradually, the public-sector banks like the government departments are getting into the cumbersome net of strict rules and regulations, leaving little to the initiative and enterprise of the banking staff.

The opening of new offices by banks (with the sole exception of regional rural banks) has been equally divided between banked and unbanked places. Between July 1969 and April 1978, the commercial banks opened 19,429 new offices out which 9,663 were in the unbanked centres while the rest were in banked ones. During this period, emphasis has been put on the opening of branches in rural areas. In June 1969, the rural bank offices constituted 22.4 per cent of the total bank offices in this country. By April this year, their share had risen to 41.6 per cent. For this marked shift to the opening of new offices in villages, the policy of the Reserve Bank of India is solely responsible. Whereas in June 1969, the population served by each bank office on the average was around 65,000, it fell to 23,000 only in April 1978. Among the states, Punjab today is a leader as each bank office there serves about 11,000 persons. Among the union territories, Chandigarh is on top with each bank office servicing nearly 3,000 persons.

The priority sectors including agriculture, small scale industries, exports etc have received preferential treatment in the allocation of bank credit. The total commercial bank credit in June 1969 was estimated at Rs 3,600 crores out of which the priority sectors received Rs 762 crores —21.1 per cent of the gross bank credit. By May 1978, the bank credit had risen to Rs 15,235 crores, the priority sectors claiming 35.2 per cent of the total credit at Rs 5,352 crores.

The most important aspect of bank credit is the regular return of the funds made available along with interest. In the case of advances made to agri-

TABLE I

Opening of New Offices

	Unbanked	Banked	All centres
State Bank of India			
July 1977-April 1978	241	142	383
July 1969-April 1978	1,671	1,458	3,129
SBI associates			
July 1977-April 1978	101	64	165
July 1969-April 1978	644	633	1,277
14 nationalised banks			
July 1977-April 1978	666	345	1,011
July 1969-April 1978	4,493	4,959	9,452
Private sector banks			
July 1977-April 1978	431	233	664
July 1969-April 1971	1,785	2,475	4,261
Regional rural banks			
July 1977-April 1978	472	58	530
July 1969-April 1978	1,069	241	1,310
All commercial banks			
July 1977-April 1978	1,911	842	2,753
July 1969-April 1978	9,663	9,766	19,429

TABLE II

Regional Spread of Bank Offices

	No. of offices			% share in total		
	June 69	June 77	April 78	June 69	June 77	April 78
Rural	1,832	9,532	11,460	22.4	38.4	41.6
Semi-urban	3,322	7,211	7,544	40.1	29.1	27.4
Urban	1,447	4,263	4,508	17.5	17.2	16.4
Metropolitan/ port towns	1,661	3,796	4,037	20.0	15.3	14.6
Total	8,262	24,802	27,549	100.0	100.0	100.0

Note : Classification of centres in June 1969 based on 1961 census and in June 1977 and April 1978 on 1971 census. *Excludes 136 offices closed during the period June 1969 to June 1977. @ Excludes 142 offices closed during the period from June 1969 to April 1978.

culturists the experience of banks regarding repayment is not uniform. In some areas, it is the inexperience of the bank staff which has been responsible either for losses or for delay in payment. Elsewhere in this feature will be found the results of a study by Dr G.L. Chaplot, confined to the districts of Udaipur, Bhilwara and Chittorgarh in the Udaipur division of Rajasthan. Dr Chaplot has made a number of suggestions for making agricultural lending more effective and purposeful. He has particularly mentioned that the commercial banks do not pay adequate attention to pre and post-disbursement follow-ups. In the case of government guarantee loans in particular, poor follow-up resulted in a high rate of default.

An assessment of the performance of the regional rural banks (RRBs) made recently by the Dantwala committee has shown that they have the capability to serve the purpose for which they were established. They have an edge over the rural branches of commercial banks due to their "relatively low cost of operation, simplicity and low profile, local participation in management, feel and familarity of local staff, aud close association of the district level agricultural and rural development agencies and personnel". The committee came to the conclusion that the RRBs can make a substantial contribution towards improving the quality and credit flows to the rural areas by becoming an integral part of the rural credit structure. Among a series of recommendations made by the committee for the improved functioning of the RRBs, it has suggested that "whatever may be the level of interest rates charged and the provision of differential rates of interest, the RBI should take steps to bring about uniformity in the interest rate policy for all credit institutions – cooperative and commercial—catering for the requirements of the rural community".

The cumulative efforts of all banks have resulted in the establishment of less than 12,000 rural bank offices so far. Since we have about 600,000 villages in the country, each bank serves on the average about 50 villages. For adequate coverage of rural areas, the country needs a bank office for every 10 villages. It follows the number of rural bank offices in the country should be raised to 60,000. At the present pace of expansion of new branches of banks, it will take nearly two more decades to attain this target. In other words, adequate coverage of rural areas by banks can be expected only by the end of the current century. It is assumed that the sponsoring banks possess both the financial and managerial skills to attain this goal and at the same time the rural areas have sufficient "local" manpower to take on the new challenging tasks. Surely, the task is gigantic and needs concerted efforts at all levels—centre, state and local.

Among the priority sectors, agriculture and small-scale industries have claimed almost equal attention of banks. At the end of May 1978, the credit made available by all commercial banks to small-scale industries was Rs 1718 crores as against Rs 1636 crores for agriculture. Earlier, in June 1969, small-scale industries had received more financial accommodation than agriculture; then, credit to small-scale industries was estimated at Rs 286 crores as against the total credit of Rs 188 crores for agriculture.

Deposits of leading Private Sector Banks
(As on December 31)

(Rs crores)

		1975	1976	1977
1.	Andhra Bank	168	222	325
2.	Bank of Madurai	49	53	70
3.	Bank of Rajasthan	45	57	68
4.	Corporation Bank	77	102	146
5.	Federal Bank	38	56	86
6.	Jammu & Kashmir Bank	42	59	
7.	New Bank of Iudia	144	210	277
8.	Oriental Bank of Commerce	86	105	125
9.	Punjab & Sind Bank	148	203	288
10.	Vijaya Bank	163	214	254

TABLE III

Groupe-wise Bank Offices in Different Categories of Centres

	Rural	Semi-urban	Urban	Metro-politan/ port towns	Total of all centres
State Bank of India					
June 1969	462	795	162	150	1,569
June 1977	1,869	1,417	604	469	4,359
April 1978	2,125	1,468	645	504	4,742
SBI associates					
June 1969	357	375	86	75	893
June 1977	847	670	275	208	2,000
April 1978	920	724	294	226	2,164
14 nationalised banks					
June 1969	686	1,452	928	1,068	4,134
June 1977	4,481	3,392	2,405	2,265	12,543
April 1978	5,154	3,518	2,500	2,381	13,553
Private sector banks					
June 1969	327	700	271	368	1,666
June 1977	1,647	1,657	962	854	5,120
April 1978	2,080	1,726	1,050	926	5,782
Regional rural banks					
June 1976	94	13	5	—	112
June 1977	688	75	17	—	780
April 1978	1,181	108	19	—	1,308
All commercial banks					
June 1969	1,834	3,322	1,447	1,661	8,262
June 1977	9,532	7,211	4,263	3,796	24,802
April 1978	11,460	7,544	4,508	4,037	27,549

Note : Classification of centres in June 1969 based on 1961 census and in June 1977 and April 1978 based on 1971 census.

In recent years, the banks have drawn up special schemes for providing credit to small industries especially in rural and backward areas. Technocrats, technicians and entrepreneurs interested in setting up small units of their own have received liberal assistance of the banks. The usual insistence on the owner's equity has been waived in many a case. The banks are required to examine the feasibility of a project and advance credit even if the entrepreneur does

TABLE IV

State-wise Distribution of Bank Offices and Population per Office

States with an average population per bank office	No. of Bank offices			Population per office* (in thousands)		
	June 1962	June 1977	April 1978	June 1969	June 1977	April 1978
Below 25,000						
Punjab	346	1,271	1,403	42	12	11
Kerala	601	1,705	1,986	35	14	12
Himachal Pradesh	42	253	286	80	15	13
Karnataka	756	2,138	2,322	38	15	14
Gujarat	752	1,883	2,065	34	16	15
Jammu & Kashmir	35	285	331	114	18	16
Haryana	172	604	664	57	19	17
Tamil Nadu	1,060	2,307	2,530	37	20	18
Maharashtra	1,118	2,671	2,879	44	21	20
Nagaland	2	22	26	205	25	22
Andhra Pradesh	567	1,844	2,080	75	26	24
Between 25,000 and 50,000						
Meghalaya	7	41	45	141	28	26
Rajasthan	364	1,022	1,140	70	29	26
Tripura	5	49	67	276	36	27
West Bengal	504	1,626	1,785	87	31	29
Uttar Pradesh	747	2,714	2,991	119	36	33
Madhya Pradesh	343	1,247	1,418	116	39	35
Orissa	100	529	630	212	47	40
Assam	74	354	398	198	50	46
Bihar	273	1,176	1,351	207	53	47
Manipur	2	23	26	497	53	48
Union Territories**						
Chandigarh	20	71	74	7	4	3
Goa, Daman & Diu	85	190	214	8	4	4
Delhi	274	709	759	10	6	5
Lakshadweep	—	5	5	—	6	6
Andaman & Nicobar Islands	1	7	11	82	16	10
Pondicherry	12	37	41	31	13	11
Dadra & Nagar Haveli	—	4	4	—	19	19
Arunachal Pradesh	—	11	12	—	43	39
Mizoram	—	4	6	—	83	55
All-India	8,262	24,802	27,549	65	25	23

*The average population per bank office is worked out on the basis of estimates of mid-year population.

**The average population per bank office for June 1977 and April 1978 is worked out on the basis of 1971 census figures.

not possess sufficient capital of his own.

Among the priority sectors, the export trade has been given a place of pride though during the past nine years it has lost in ranking. In June 1969, its rank was second to small-scale industries only but in May this year it was trailing behind both agriculture and small-scale industries. As stated earlier, agriculture has received top priority in recent years; hence its ascendancy. However, the export trade has not been neglected. In fact, the bank credit made available to it rose from Rs 258 crores in June 1969 to Rs 1,177 crores in 1978. Even though the export trade was included in the priority sectors after the nationalisation of the 14 leading commercial banks, the Export Policy Resolution passed by Parliament on July 30, 1970, urged the strengthening and expansion of credit facilities for exporters.

Besides the provision of credit facilities, the banks have in recent years taken upon themselves the responsibility of giving advisory and promotional services to exporters. They now provide advice and information to exporters regarding the market potentials and the foreign exchange conditions in the world markets. After the demise of the Brettonwoods agreement, leading currencies of the world have started floating. Absence of knowledge or guidance in this regard can cost the exporters dearly.

Among the many other sectors of the economy which need the assistance of banks for further expansion, housing has recently engaged the attention of both the people and the government. Currently, the housing loans are being given by the banks to their own employees. The banks also subscribe to the guaranteed bonds and debentures of Housing and Urban Development Corporation Ltd (HUDCO). The total credit made available by the banks

TABLE V

Sectoral Deployment of Credit

(Rs crores)

	June 1969	May 1977	May 1978
Gross bank credit	3,600	13,421	15,223
Of which priority sectors	762	4,628	5,353
	(21.1)	(34.5)	(35.2)
Agriculture	188	1,297	1,636
Small-scale industries	286	1,444	1.718
Export	258	1,125	1,177
Other priority sectors	30	762	822
Public food procurement	233	2,312	2,295
	(6.5)	(17.2)	(15.1)
Residual sectors*	2,605	6,481	7,575
	(72.4)	(48.3)	(49.7)

Note: Figures in brackets relate to percentage share in total.
*Includes large and medium industries and wholesale trade in public and private sector.

New Branch Expansion Policy

Putting together the recommendations of a number of study groups whose reports have been released recently, the Reserve Bank has formulated a comprehensive commercial banks branch expansion policy for the next three years i.e. from 1979 to 1981. This policy seeks to ensure (a) the opening of more bank offices in the rural areas of underbanked regions, (b) larger involvement of bank in district development activities and (c) an increasing flow of credit to weaker sections. At least 4500 new bank offices will be opened during the period under reference in the rural and semi-urban areas of districts where the average population per bank office is higher than the national average. It means that detailed programmes of expansion on a district-by-district basis will be drawn up in consultation with state governments and the concerned banks. In the rural areas where the R.R.B.s have been established or will be established hereafter, they will be accorded priority. Banks which have a regional character would not be allowed to open branches in far-flung areas but shall be asked to concentrate on opening their branches in their own areas of operation or in the adjoining deficit areas on a selective basis. A decision has already been taken and conveyed to the banks that their credit-deposit ratio in respect of their rural and semi-urban branches should be brought to 60 per cent before the end of March, 1979.

is rising at the average rate of Rs 25 crores per annum. The Working Group on the Role of the Banking System on Finance for Housing Schemes has recommended that the commercial banks should earmark an additional sum of Rs 75 crores a year on the average. The group has thus suggested that roughly an additional amount of Rs 100 crores per annum may be advanced by the banking system as a whole for the housing sector. It has also recommended that the Reserve Bank of India should allocate to each individual bank the amount that it will invest in or lend to the housing sector on the basis of its deposits.

The group has marshalled all the available information on housing in this country and has concluded that the backlog of housing shortage is increasing every year as the rate of construction has not kept pace with the population growth. The housing problem in the urban areas has been accentuated due to the scarcity of land and the continuous inflow of migrants from rural areas, The Rent Control Acts which apply in the urban areas tend to deter private investment in housing. The problem of housing shortage is as pressing in the rural areas as it is in urban areas. According to the National Building Organisation, the total housing shortage at the end of March 1974 was about 15.6 million units out of which the share of the rural areas was as much as 11.8 million units.

Surely, the housing situation in this country will continue to deteriorate year after year if all financial institutions including the banks and the state and central governments do not actively lend a helping

hand. And the banks should charge reasonable interest on housing loans, though not a preferential one (as in the case of agriculture and small-scale industries). The group has rightly recommended that the banks should set an average return of 11.5 per cent on their funds lent for housing purposes. Nearly 70 per cent of the funds should be made available to intermediaries such as HUDCO, housing boards etc at 10.5 per cent rate of interest while the balance amount should be provided as direct finance to other borrowers at 13.8 per cent per annum.

TABLE VI

Group-wise Performance in Mobilising Deposits

(Rs crores)

	June 1969	June 1977	June 1978
State Bank of India and its associate banks	1,239	5,515	6,553
14 nationalised banks	2,633	10,396	12,777
Public sector banks	3,872	15,911	19,330
Private sector banks	774	2,902	3,602
All commercial banks—total	4,646	18,813	22,932

The pattern of banking activity has been undergoing fast changes in recent years and it is necessary to conduct periodically such enquiries as evaluate the cost of banking services. A study published in the April 1978 issue of the Reserve Bank of India Bulletin compares the variations in servicing costs of different banking activities between 1970 and 1976. It covered nearly 1000 branches of 21 banks and the reference period was one month only. An interesting result thrown up by this study was that the cost per transaction of a savings account rose much faster than that of the current account while there was a fall in the case of the fixed accounts.

The cost per transaction of a savings account was Rs 1.78 in 1970 and got more than doubled to Rs 3.60 in 1976. Nearly fifty per cent rise was recorded in the case of current deposits from Rs 1.88 in 1970 to Rs 2.70 in 1976. However, in the case of the fixed deposits, the cost per transaction declined from Rs 6.29 in 1970 to Rs 5.28 in 1976. Similarly, the servicing cost of advances were worked out. While such an analysis discloses the areas where the banking activities are being conducted at a loss or at a nominal profit, and points to the corrective action which needs to be taken, it fails to show the inefficiencies which creep in. For example, the efficiency in the banks has deteriorated while the bill for wages has grown enormously. Therefore, it is necessary to conduct such studies as well which act a mirror to the declining efficiency of the personnel.

Innovation in rural financing

B. K. Vora

FOLLOWING THE nationalisation of major commercial banks in the country, the banking industry has emerged as one of the most effective instruments of rural reconstruction and economic transformation. As trustees of the community's resources, the banking industry is responding magnificently to the emerging needs of the community in which it lives and from which it makes a living. The industry has, in fact, adapted itself to the changing expectations and aspirations of the people and the emerging social climate of the new generation. Banking has now been transformed into a socially responsive enterprise attempting to solve the challenging problems of development. Prompted by a keen sense of dedication, the banks are endeavouring to accomplish this task with dynamic speed.

Enlarging the flow

Having regard to the priority that the development of rural areas assumes in our scheme of development, the need for enlarging the flow of production credit into these areas is now well organised by commercial banks. The lending policies of banks are becoming increasingly rural-biased and development-oriented so that the rural economy may become resurgent and revitalised Modernisation of agricultural operations, fuller utilisation of local resources, and generation of increased employment opportunities are the means through which the rural economy is sought to be regenerated. The banks have been accordingly laying considerable stress on generation of employment opportunities through active support to village industries.

The process of active participation in the rural development programme by the banks in a systematic and planned manner started with the introduction of the Lead Bank Scheme towards the close of 1969 pursuant to the recommendation of the "Study Group on Organisational Framework of the Implementation of Social Objectives" appointed by the National Credit Council in 1968.

Area approach

The Lead Bank Scheme was intended to give a concrete shape to the idea of "area approach" to the developmental planning. The scheme envisaged that the banks designated as lead banks for specified districts would take the initiative in formulating credit deployment schemes and programmes in the areas of their lead responsibility and provide leadership to the consortium of financial institutions operating in those areas. After completing the first phase of the lead bank scheme, that is, after carrying out impressionistic surveys for the lead districts, banks as part of the strategy for increasing their involvement in the development of the districts and also to achieve greater backward and forward linkage of their activities with the developmental programmes of the concerned state government have formulated district credit plans which have already been launched for implementation. The "area approach" to planning and commercial banks' active involvement in it is somewhat of an innovation for the banking industry.

The banks in their new pursuit are seeking to break new grounds in unconventional banking. Special measures are being taken by banks to accelerate the flow of credit to the rural sector. Several innovative schemes designed to promote production and employment are being formulated and implemented. As part of the area approach to tackle the problems of development, banks have launched a programme for village adoption which envisages catering for the financial needs of farmers, artisans and other weaker sections in selected areas in an integrated manner.

Responsibility on banks

Great responsibility now devolves on banks in speeding up rural development. Banks have been called upon to deploy 60 per cent of the deposits mobilised from rural and semi-urban centres in the same area apart from the stipulation that one-third of their total advances should be channelled to priority sectors. Banks have taken up the task in right earnest and with a sense of urgency and they have been vigorously exploring the avenues of accelerated flow of production credit to rural areas. In their search for bankable schemes, banks are hitting upon novel strategies coupled with new schemes.

Dena Bank like rest of the banks in the public sector has been making conscious and determined efforts to bring about speedy development of rural economy and with this end in view the bank has evolved some innovations in intensive rural financing. The organisation of workshops and credit camps is one such innovation. The bank is a pioneer in conceiving the idea of credit camps.

Novel experiment

With a view to identifying different categories of unemployed persons and encouraging self-employment, and in an effort to accelerate the flow of financial assistance to small borrowers, the bank embarked upon a novel experiment of sponsoring special credit camps in selected areas particularly in backward areas and in the areas allotted to the bank under the Lead Bank Scheme. The first such credit camp was organised in 1974. At these camps, artisans, technicians and small entrepreneurs who had viable projects of their own and who were willing to become self-employed in various lines of productive activities were invited to bring forward their projects and proposals for new ventures.

The applications received for financial assistance were scrutinised and processed speedily and loans were disbursed on the spot. Active cooperation of voluntary agencies and the social welfare departments of state governments, was sought in identifying eligible borrowers and evolving bankable schemes tailored to their training and aptitude. The credit camp concept in its original form was evolved mainly with a view to encouraging men of small means with requisite ability

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and the educated unemployed to take up self-employment.

Encouraged by the enthusiastic response to the novel strategy of sponsoring special credit camps as an effective means of taking banking to the people, and realising the urgency of intensive rural financing and ameliorating the economic lot of weaker sections by extending financial support for productive activities, the bank decided to adopt the concept of credit camp on a much wider scale and give it more institutional support by enlisting the direct assistance and cooperation of the state government officials at the district and taluka levels and the village level voluntary social organisations in identifying viable schemes and eligible borrowers.

The concept of credit camp in its new gamut is implemented in a phased manner of which organisation of workshops constitutes the first phase. In these workshops, branch managers of rural and semi-urban branches of the bank and the district and taluka/block level development officers of the concerned state governments participate. These workshops differ from the conventional workshops in that their object is not only to provide training, but also to bring the branch managers and the government officials especially at district/taluka levels closer and make them draw up jointly village credit plans to be implemented according to a time bound programme. The agricultural officers functioning at the bank's regional offices and the farm assistants working at certain branches also participate in the workshops.

Each branch manager participating in a workshop has to identify and survey, jointly with concerned taluka development officers, at least five potential villages located within a manageable distance from the branch and having substantial credit gaps. Thus, before participating in the workshop, each branch manager has to select and survey at least 4/5 villages and indicate the number of prospective borrowers and the quantum of financial assistance required in each village for different purposes.

In the workshop, various agricultural development schemes designed by the bank are explained to the participants with a view to developing an understanding of the bank's policies, procedures and other requirements in financing agriculture and small persons in rural areas. The development officials of the state government attending the workshop also explain to the branch managers the government schemes in operation in the area, and the assistance in the form of subsidy etc. available to the borrowers. In the light of these general discussions and exchange of ideas, each branch manager and concerned taluka/district level government officer meet separately and draw up credit plans for each of the identified villages. The credit plan prepared for each such village is further discussed and finalised at a joint session in the same workshop.

The next step is the implementation of the plan. For this purpose, a village meeting which is attended by the branch manager, agricultural officers of the bank, taluka development officers, agricultural extension officers, village level workers and the villagers are arranged, and the credit schemes designed by the bank, the norms for eligibility and extent of assistance available etc. are explained to the villagers. The meeting of villagers is intended to create awareness among the small neglected persons to come

forward to the branch for their credit needs.

Following the village meeting, a team of officers consisting of the bank's farm assistant, village level workers and talatis identify the eligible persons and prepare their loan cases in the prescribed forms.

A screening committee consisting of the branch manager, the agricultural officer of the bank, the taluka development officer, the extension officer, the representative of SFDA and the veterinary officer scrutinise the loan application of each person and interview him in the village itself. The committee assesses the credit requirements of each person and recommends loan amount for each applicant. If the application is rejected by the screening committee, the applicant is given the reasons for rejection.

Credit camps

The loan applications recommended by the screening committee are sanctioned by the branch manager and loans are disbursed on a predetermined date by organising a special credit camp. In the credit camp, the government officials functioning at district and taluka levels and villagers are invited.

As a result of these workshops, the branch managers of the bank's rural and semi-urban branches have been induced and motivated to visit villages and work jointly with local government officials at every stage—right from the time of identification of villager/beneficiary upto the time of recovery of loans. It is hoped that these measures initiated by the bank would go a long way in achieving the desired results.

The bank has so far organised 21 workshops and the financial assistance planned through these workshops exceeds six crores of rupees. As a follow-up of these workshops, 255 credit camps have been organised in which more than 375 branches have participated and they have provided credit facilities to about 18,000 beneficiaries with a total sanctioned amount of Rs 3.19 crores. In the credit camps, increased emphasis is being put on financing the scheduled caste/scheduled tribe persons.

The bank is now launching a multi-pronged and multi-dimensional drive to accelerate the flow of credit to rural areas in the shortest possible time span. In the drive that the bank has planned, greater emphasis is being laid on integrated rural development and employment generation.

Agricultural lending by commercial banks

Dr G. L. Chaplot

DURING THE post-nationalisation period commercial banks had sought to break new ground seeking to subserve the national priorities. There was a phenomenal expansion of the branch network of the banks, particularly in regions with little or no banking facilities. Viewed from the socio-economic objectives, requirements and expectations of the nation, however, the achievements of the post-nationalisation period could be considered no more than a good beginning.

The development of science and technology and the fast increasing population on the surface of the earth have assigned an un-paralleled important position to the agriculture and consequently to the development of agriculture for which timely adequate financing is necessary.

The study

This study of agricultural lending by the commercial banks, therefore aims at knowing :

(i) how much of funds were necessary for a farmer?

(ii) what for the funds were needed?

(iii) were the funds utilised for a proper purpose?

(iv) did he benefit himself by such loans?

(v) could he repay it? and

(vi) whether the loan was affected by the nature of security.

This study is confined to three districts, i.e., Udaipur, Bhilwara and Chittorgarh in the Udaipur division of the state of Rajasthan with a micro approach revolving round the borrower-agriculturist and lending bankers, during the post-nationalisation period from July 1969 to December 1972 by selecting through a stratified sampling technique a sample of 300 borrower-agriculturists from the three districts and 35 branches of the commercial banks in proportion to the total number of agricultural borrowers for different purposes.

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Sample survey

The data for this study was collected through a sample by a pre-tested questionnaire, personal interviews with borrower-agriculturists after identifying them from 35 branches of commercial banks operating in the three districts. The data regarding the commercial banks was collected from the Reserve Bank bulletins and different surveys conducted at the all-India level.

It has been observed that a majority of the borrower-agriculturists had large family sizes (above 10 members) and 98.3 per cent of them were principally or subsidiarily engaged in agricultural activities. But more than 66 per cent of them had land below an average level of 11 acres. Their main crop was maize followed by wheat and they retained a major part of the grains for their own consumption.

The acreage of cultivated area of food crops declined year after years. The borrower-agriculturists of Chittorgarh district had better and effective land and they used maximum area of land. On the whole the bad agricultural years had their adverse effect on production and sales of the main crops which declined in the successive years.

While the borrower-agriculturists incurred their major proportion of household expenses on food, 50 per cent of their total agricultural expenses were incurred for seeds and fertilisers. This indicates their growing trend for adopting better methods of agriculture. But with the passage of time, their expenditure on social obligation has been on the increase.

A majority of the borrower-agriculturists, specially in the small income-groups, had a preference for jobs earning regular salaries/wages. Income from agriculture indicated a declining trend while that from other sources was on the increase. But on the whole there was no indication of change in the per family income during the period under study, and the economic condition of the medium class was not quite satisfactory. Yet the overall position of the borrower-agriculturists showed a positive saving to a large extent.

Utilisation of savings

The savings were mostly utilised for agricultural production followed by repayment of loans to commercial banks which is a healthy sign. Among the commerial banks, the Punjab National Bank was leading in financing agriculture to the extent of 76 per cent of the total borrower-agriculturists. The death rate of the borrower-agriculturists was 10 per thousand per annum and the average outstanding per deceased borrower was Rs 2044 varying from district to district.

The main aim for the analysis of the borrowings was to find out the purpose for which the funds were required, the quantum of funds required and the extent of coverage by the commerial banks. In the context of these objectives the study revealed that the number of agriculturist-borrowers increased from year to year and yet their total number was insignificant in view of the vast number of agricultural class and for this purpose the role of commercial banks that have taken up the work of lending to agriculturists has to be more effective.

The clientele

In the matter of loans, the largest number of borrowers belonged to land-holding group of 0-8 acres and the amount of loan increased with an increase in the holding size, but those with land-holdings above 15 acres were benefited the most. During 1969-72, there was a phenomenal increase in the amount of borrowing and it was the largest in the case of the Punjab National Bank. The commercial banks lending for agriculture did not follow a uniform policy.

The number of borrowers for wells remained almost steady except in the year 1969, which showed that the commercial banks did not appreciate the idea of lending for wells. From 1971, however, a shift from loans for wells to loans for machinery was evident and borrowers from Chittorgarh district took a lead in this respect. There was also a tendency towards concentration of loans, as 14 of the borrowers got more than Rs 15,000 each. The loan

amount was determined by the nature of security offered and not by the actual need of the borrower.

There was no scale of lending for unidentifiable purposes such as levelling etc. and the banks also did not have any system of evaluating the benefits derived by particular schemes of lending. As there was no system of processing loan applications, it was not possible to estimate the extent of coverage of borrowers and their credit requirements.

From 1971, the commercial banks discontinued the practice of giving loans for periods longer than five years, and the period of repayment was fixed without regard to the capacity of the borrower to repay and the profitability of the amount of loan.

It was also brought out that 29.33 per cent of the total borrowers borrowed 16.64 per cent of the total borrowings (of the commercial banks) from other sources for unproductive purposes. While 19 borrowers who obtained loans from other sources were attracted by the commercial banks, 69 of those who had borrowed from commercial banks shifted to other sources.

The most important aspect is not the procurement of funds for particular purposes, but their proper and effective end-use. An analysis of this aspect of utilisation of the loan amounts by the borrowers has revealed many interesting facets of agricultural lending by the commercial banks. Principally, in order to prevent the loans from misutilisation it is necessary to;

1. make an assessment of the plan for utilisation; and

2. watch the actual utilisation of the borrowed funds.

The extent of proper utilisation of the borrowed funds and the extent of their misutilisation have to be judged within the framework of the objectives of agricultural lending. It has been quite clear that the amount of lending has been increasing from year to year marking a phenomenal increase in the year 1970.

Since there should be a definite financial plan of the proposed investment and that the borrowed money should be solely used in a particular venture with well-defined expected benefits, the borrower should keep in view the fact that if the losses are imminent, money should not be borrowed and his own capital should be invested so that additional burden of the repayment of borrowed capital is averted.

While the borrower may keep in view the above facts, the lender's interest remains unimpaired only when the investment is profitable and repayment is timely. In this context the study aimed at knowing the pattern of actual utilisation of the amount advanced to the agriculturists. It came to light that except for the year 1970, there was a misutilisation of two to seven per cent of the amount advanced during the period 1969 to 1972. In 1970, however, the misutilisation was 14 per cent, which was reduced in the subsequent years and on the whole lending for agricultural machinery proved very satisfactory.

In the case of loans for crop production, it was revealed that a major proportion of the loans was utilised for a definite purpose, but there was an increasing tendency towards its misutilisation or utilisation in part, which showed a lack of proper assessment by the commercial banks of the credit needs. The condition of well

loans was all the more disappointing and in watching the proper utilisation, it was necessary to have a fool-proof system of post-lending follow-up, with the availability of the services of 'water experts'.

It has been found that the main reason for misutilisation was inadequate post-lending supervision which was due to lack of staff, lack of communications and conveyance facilities, reorganisation of banking services etc.

Important ingredients

In any system of credit upon which the whole edifice of the banking industry rests, lending and realisation of the loans with interest are the two most important ingredients. While the loans are necessary for boosting up development, their timely repayment with interest is necessary for the rebuilding of the banks' capacity to give further loans. The case of agricultural lending is also no exception to this principle. Hence, if the borrower wants to build up a good basis for further or additional borrowing, he must be business-like and a good customer for which he must have a fair repayment record. For this, it is essential to have a proper plan of repayment according to income-earning capacity instead of obliging him to pay in compulsory equal instalments.

The commercial banks under study adopted the system of agricultural lending on amortised basis, providing for repayment in equal instalments with a maturity of one to seven years depending upon the category carrying the rate of interest prevailing at the time of repayment. But the annual assessment of the amount repaid by the borrowers showed a poor performance of recovery against the demand. Though this poor performance was due to famine, drought and rain havoc prevailing during the years, yet the lack of managerial effort was also responsible to some extent. Therefore, since there is a wide gap between the amount due for repayment and amount repaid, there is need for vigorous efforts in this direction, as the banks took collection measures at the time of their half-yearly closing, i.e., in June and December, and not throughout the year.

Recovery position

The highest recovery position was (88.02 per cent) observed in case of pump-set loans followed by crop loans (83.98 per cent) and the position of well loans was rather poor in spite of increasing percentage of repayment year after year. On the whole the over-all recovery position of Chittorgarh district was better than the other two districts of Bhilwara and Udaipur.

Only 20 borrowers experienced difficulty in repaying the amount at the scheduled time, and in order to meet the obligation of the repayment of bank loans, they were forced to obtain loans from other sources. It is thus necessary to plan repayment instalments according to the capacity, season and income of the borrowers and for that purpose an analysis of the income of the borrowers is most relevant to the present context.

If the repayment of a loan is not made in time, it becomes overdue which brings about a sort of stagnancy in the machinery of the credit system. The only reason for the failure of the most efficient cooperatives in the history of the co-operative movement has been the inability to recover the overdue loans advanced to the members. In the case of agricultural lending by the commercial banks, however, the recovery is not as difficult as it is in the case of cooperatives.

It is not an easy task to avoid overdues, but at the same time measures can be taken to keep the overdues to the minimum. In the course of the present study it came to light that 19 per cent of the amount of loans outstanding was locked up in overdues during 1969-72. The amount outstanding varied with the amount lent, but the amount overdue was rising.

In 1970, the eyes of the commercial banks were opened when the overdues of well loans were the highest and this compelled the banks to put in concerted effort for collection of overdues. Since the loans for machinery and tractors etc were fully secured, the overdues in their cases were limited.

All commercial banks had overdues, varying from one bank to another bank. But as much as 83 per cent of the total overdues stood against small and medium size farmers (those with 15 acres or less of land) and 69 per cent of which was overdue against those owning land up to eight acres.

No less than 74 per cent of the total borrowers were found partly or wholly in default, of whom the majority (154) belonged to land-holding size group of 0—8 acres. The repayment capacity depended upon the income of the farmers. Those with low income of Rs 3,000 per annum, largely, failed to repay the loan in time, and 86 of them with land

up to eight acres were in default by Rs 501 Rs 2000.

Varied were the reasons for poor recoveries (in some cases) and the important ones were—defective loaning policies, inadequate supervision, infructuous investments, improper channelisation of guarantee loans and in some cases the small quantity of the amount of loan forced the borrowers to resort to other sources of borrowing. In fact the borrowers expressed the opinion that they wanted to repay their overdues when they had savings or additional income. In order to keep the overdues to the minimum and in check, it would be necessary to set up a proper machinery and promote recovery of loans at all levels.

Another important aspect in the present study was to know the effects of the security on agricultural lending, which could be known by the study of the need for security, its nature, social objectives with reference to agriculture, state's policy and various effects on lending along with preferences of the borrowers and reasons thereof. The main social objectives which revolve round agricultural development and planning aim at attaining self-sufficiency in foodgrains; increasing agricultural production to meet the needs of growing industries and export, diversifying rural economy; and improving the economic and social status of the rural community.

A majority of the borrowers got the loan from the commercial banks for two to four weeks period and on an average 63 per cent of the total borrowers of security loans and about 84 per cent of government guarantee loans spent a whole day and about five rupees when they were called by the commercial banks. One-fifth of the funds lent was observed as a financial gap which was more in the case of government guarantee loans as compared to security-based lending.

Commercial banks did not pay adequate attention to pre and post-disbursement follow-ups and specially in government guarantee loans the follow-up was rather poor. Surprisingly enough the percentage of borrowers under government guarantee loans who did not pay a single instalment of loan during 1969-72 was 24.21 as against 8.13 per cent in case of security loans. Thus the repayment of government guarantee-based loans was comparatively poor, as in this case the recovery percentage was 61.84 as against 83.45 in security-based lending during the four-year period.

The borrowers of government guarantee loans were faced with procedural difficulties while those of security loans did not face as much difficulties. It came to light that a majority (80 per cent) of the borrowers preferred to obtain loans from the commercial banks and they expressed the view that the period allowed for repayment was reasonable though the rate of interest was felt as 'high'.

During the course of the whole study the researcher came across certain hard facts about agricultural lending and felt that the present system of lending to the agriculturists could be made more effective and purposeful by implementing the subjoined corrective and suggestive methods.

The procedure for financing cultivators should be reviewed by each commercial bank in the light of the national priori-

ties, its own experience and also with reference to individual areas and categories of purposes and the well-known principles of sound and effective production credit pertaining to quantum, manner, timing of disbursement, recovery and supervision.

The commercial banks should provide for greater refinement and flexibility in determining the credit eligibility of an individual cultivator as also in disbursing, supervising and recovering loans so as to take account of the individual circumstances of each borrower as they gain experience in the line of business and augment their staff for the purpose.

Where necessary, the banks should offer accommodation facilities of cash credit nature to appropriate sections of cultivators, e.g. those who undertake multiple cropping.

Economic class

The bank should ascertain from the revenue authorities the acreage of land owned, and the total area operated by the applicant for the loan so as to determine his economic class, his capacity to invest from his own resources, usefulness of the proposed scheme etc. It is not enough to get the details only of those plots which are to be mortgaged with the bank.

The bank must fix scales of finance for different purposes under different sets of conditions based on local expertise.

These scales of finance should be adopted for different classes of cultivators according to the purpose of loan, taking into account the applicant's own investment capacity. Scales and norms of lending should, as a rule, be fixed separately for as small an area as possible, preferably, village-wise, and, in particular, separate scales and norms be fixed for irrigated and non-irrigated areas.

Repaying capacity, based on the profitability of the project and taking into account the time lag in construction and realisation of benefits etc, should determine the borrower's eligibility for loan. The annual repaying capacity should decide the appropriate duration of the loan, so that no individual is allowed a period longer than what is necessary. This will not only ensure quicker rotation of funds but also reduce the interest burden on the borrowers.

Loan quantum

In determining the quantum of loan, small farmers should be given enough to cover almost the entire cost of the land improvement scheme. For that purpose the maximum permissible loan limit in their case should be, say, 75 per cent of the value of the land (after improvement is carried out) mortgaged with the bank.

For determining the period for which a loan should be provided to a cultivator for a specified purpose, the banks should not follow routine rules of uniform applicability but take a decision in each individual case with reference to the size of the outlay to be financed, the life of the asset to be created and the probable repaying capacity generated by the particular borrowing unit and its production plans.

In development-oriented credit, commercial banks should logically be guided more by the production potential of and the repaying capacity generated by the investment to be financed than by the value of the land offered as mortgage.

Whatever be the type of security insisted upon, it is not on its realisation but on the supervision of the activity which is being financed that the commercial banks have to rely on for the recovery of the loan. Moreover, for various practical reasons, the security of land has to be looked upon more as an assurance of the borrower continuing to be in farm business rather than as an asset which can be proceeded against at will. Further, whereover possible and subject to lending being production-oriented, the banks may seek other security such as personal guarantee of one or two solvent sureties instead of government guarantee, pledge of produce etc. The nature of security required should be determined with reference to:

1. The ability of the borrower to provide it without hardship;
2. The protection which the lender requires against default; and
3. The borrower's moral standing and farming ability.

A system of test check by the senior officers of the banks may be instituted not only to see that loans have been properly utilised by the borrowers but also to verify whether the anticipated benefits of the investment are being derived in actual fact.

As regards difficulties experienced by borrowers in repaying the instalments in the event of crop failure, or other genuine causes of related nature, it should be possible to meet the situation by granting extensions in really hard cases, rather than undertaking conversion operations. The instalment falling due in a

particular period may, however, have to be postponed in cases where the borrower's efforts for increased production have failed or production has been adversely affected by some natural calamity.

Conversion operations may be resorted to, if at all, only in exceptional circumstances where relief in this form is found to be absolutely necessary, e.g., because of recurrent or severe crop failures or a natural calamity. For this purpose, with the help of the state government, a fund should be made available which should provide relief exclusively in geniune cases.

The commercial banks should evolve a suitable set of rules and procedures to determine the circumstances in which defaults might be condoned on account of crop failure and the manner in which the borrower might be given relief, e.g., by the extension of loan, or its conversion from a short-term to medium-term and medium-term to long-term loan. As for defaults which are wilful, efficient supervision alone can help to keep them in check.

In tackling overdues, an important aspect is that of educating the borrowers, the extension staff, the administrators and the political chiefs, in the discipline which must underlie institutional credit if its flow is not to be interrupted. It is necessary that all those concerned with agricultural production and not merely lending agencies should collaborate in an effort to ensure that agricultural credit is used for the purposes for which it is advanced and repaid out of the income which arises from the production activity thus financed.

A definite programme of the bank, district-wise and scheme-wise, should be prepared and priorities should be laid down in the light of the agricultural situation obtaining in the district. Within a scheme, a definite outlay must be fixed for marginal and sub-marginal cultivators. With comparatively less investment, they may be enabled to be more productive.

Each commercial bank should formulate certain pilot projects at which some special problems may be tackled and certain new ideas in the field of credit for the cultivator may be tried out. As examples of these projects may be mentioned those concerned with the provision of :

(i) Credit to potentially viable farmers;

(ii) Cash credit facilities to farmers adopting a multiple cropping pattern or other schemes which involve similar innovations; and

(iii) Production credit to cultivators who have borrowed term loans.

Steps should be taken to form local advisory committees to help the branch managers in appreciating the local problems and assessing the creditworthiness of the local clients. Such committees may include knowledgeable local persons such as progressive agriculturists, distributors of agricultural inputs and officials of the Agriculture and Cooperative departments and wherever possible, district administration personnel.

The commercial banks should also ensure coordination with other non-credit agencies such as those responsible for various agricultural services.

At the same time, there is need for coordination between

the different credit agencies to avoid their working at cross purposes of financing the same farmers.

The organisation within each commercial bank for agricultural credit should be strengthened in three broad aspects. First, at the head office as well as some of the regional offices, it is necessary to have persons who have also been given some training in banking. Second, at those pilot centres at which intensive and experimental efforts are contemplated, it is useful to have staff who are qualified in agricultural economics and related fields, even if they are not experts of high level. Third, so far as the generality of the officers of the commercial banks are concerned, it is necessary to have an increasing number of persons who have had training in agricultural finance.

Review of laws

The state government should undertake a quick study of the existing laws and procedures relating to loans to agriculturists, land tenures, debt relief, regulation of money-lending etc. and delete those features of the legislation which inhibit the commercial banks or other institutional credit agencies from providing credit to agriculturists.

The state government should examine whether suitable legislative measures can be enacted to enable commercial banks to recover their dues more expeditiously by providing less time-consuming procedures of law and for some assistance to be extended by the revenue or other government machinery.

The state government should come to the rescue of the commercial banks and provide a fund to the extent of, say, 50 per cent of defaults arising in cases which involve failures of crops and digging of wells where water is not struck. At the same time, it is necessary to ensure that groundwater development programmes are supported by scientific surveys and investigations.

Exchange of views

There is need for a constant exchange of views and consultations between the state governments and the commercial banks to ensure that specific difficulties faced by the latter in expanding their agricultural credit operations are identified and steps taken to solve them. Besides, it is only thus that the state governments can keep themselves fully informed about the facilities available to the cultivators from banks and the latter, of the features and particulars of the agricultural programmes of the state government.

Agricultural loans other than crop loans, should be granted for sufficiently long periods and at low rates of interest.

While there has been an effective thinking about crop insurance for the cultivators, no steps in this direction have so far been taken. In a country where the whole economic system depends upon the uncertain monsoons, it is necessary to proceed expeditiously in this direction which would not only elevate the economic standard of the cultivators, but also keep the commercial banks lending for crop production and other agricultural purposes free from the fear of delay in the repayment of loans.

In fact the rural areas of the state are not yet covered by the network of banking facilities, and thus there is great need for the extension of the regional rural banks by providing more and more branches in the remotest parts of the state, so that the cultivators can derive the maximum benefit.

It is necessary to have adequate provision of the facilities for consumption credit to the cultivators so that they are not obliged to go to the money-lender. Once the cultivator goes to the money-lender, he is not able to salvage himself from his jaws. This facility should not be available only to the landless class but also to the small farmers after getting some social or national work done by them.

The small-scale industries should be established at tehsil levels according to the availability of the raw materials and other infrastructure. Such industries should be in the hands of cooperatives. It will get those persons engaged who are free from agriculturists' families to do some other jobs. Their added income from such work shall strengthen the repaying capacity of the farmer-borrowers and raise the general standard of living of the farmers.

In order that the agriculturists may plan their household, social and agricultural expenses properly, they should be adequately educated in rural economics. This in fact is an extension service which can well be the responsibility of the Agriculture Extension Officer of the Panchayat Samiti, the village level worker and the village patwari. These government personnel can gradually orientate the villagers in exercising parsimony in social and domestic expenses and in the best use of the borrowed and saved capital for productive purposes. Thus it should be a coordinated work of different government, social, bank and the panchayat samiti agencies, if there is to be a real social upliftment of the rural masses.

Computerised banking

Prof. S. S. Rohatgi

WITH INCREASING flood of data that commercial banks all over the world have to face everyday, computerisation of banking services—receipts and disbursements, transfers of money, foreign exchange dealings, rigorous, controls on overdraft facilities, retirement of bills and the like—has taken place only in highly developed countries so far, though even the USSR banks are beginning to use computers and data terminals in their headquarters. It is rather unfortunate that Indian banking has not been computerised mostly because of neo-Luddite pressures faced from restive trade unions. But ways could be found to assure current levels of employment in all commercial banks even after the introduction of computers; these computers could substantially reduce the time-lag between the end of a period and the processing of details of banking trends during that period.

Monitoring trends

In a developing economy like ours, it is most important that economic trends such as inflationary pressures, inter-sectoral deployment of credits, proneness to hoard commodities in short supply, and the general dynamics of monetary movements are monitored with the least delay, so that corrective measures may be taken as soon as some adverse trends are revealed. Besides, customer service could be expedited substantially.

What are the computerised systems and services available to the banks today? These vary from country to country. Summoning of data immediately through spoken words, making on the spot transactions quicker, no queueing for withdrawing money from banks, instant accounting of foreign exchange dealings including inflow and outflow of invisibles, expediting local clearings, keeping track of cheques, safeguarding payments electronically and providing upto-the-minute currency dealings and world-wide data generated on those dealings. Naturally, different systems and different types of services have been developed by different computer and data processing companies. Some of the details are given below but these are by no means exhaustive.

Computerised data

The most important computer company, which seems to have captured a large banking data processing market in Europe and the USA seems to be *Arbat*, which is a subsidiary of *Arbuthnot Latham*. Its specialised computer systems are being used by merchant banks such as *Kleinwort Benson*, and commercial banks such as *Midland* and *Citibank*. Of course, *ICL, IBM, Phillips Honeywell, Scan-Data* have also developed specialised systems for other banks and even for clearing houses. There is no single computer company or system that leads in providing computerised banking services and data processing facilities. India's medium-sized computer—TDC-312— manufactured by Electronics Corporation of India Ltd (ECIL) at Hyderabad, has not yet developed specialised banking services, though some of the softwares available for TDC-312 could be used in them. The difference is that computer companies in western Europe and the USA—and also probably in Japan as *Fujitsu* has a large range of computers in that country—have developed specialised packages for banking services, something that has not yet happened in India.

Indian version

Maybe that Hindustan Computers Ltd's new mini-computer or DCM's *Galaxy-I* or some new computers still in the design stage could provide such specialised packages and systems. We cannot evidently develop computerised banking on the basis of imported hardwares alone, even though our foreign exchange position is quite sound at the moment.

London clearing banks have instituted CHAPS (the Clearing Houses Automated Payment System), which is based on *ICL's 2960* computer and associated terminals, and which helps to speed up transactions between major offices of the banks. It is a high quality security system. Its cost in 1977 was three million pounds sterling (Rs 4.60 crores). At the moment, it is being operated for transactions of 300,000 pounds sterling or more single transactions, which are completed the same day instead of three days taken earlier. When fully operational in 1979, the system will have 150 terminals, mostly in the city of London. But later larger areas will also be covered. CHAPS uses an on-line computer system to which user branches have access either through terminals or through their own computers. It was learnt that *Honywell* had offered also a similar system but its price was a little higher.

Commercial banks, which are required to keep a visible record of cheques are now using *NCR 7555* document microfilmer, which neatly fits in computers NCR-755 and 7750—which is 16½ inch by 32 inch, fits between operator console and the document sorting pockets of NCR proof system. It can microfilm 14,000 cheque-size documents on a 100-foot film roll. Photographing speed is 100 inches of documents per second. Image account marks provide faster retrieval of microfilmed documents. Initially, when cheques are sorted out, it is done in MICR (Magnetic Ink Character Recognition) numbers at the bottom of cheques.

Volatile markets

Currency exchange markets are highly volatile; rates change sometimes very fast. It is, therefore, necessary for banks dealing in foreign exchange to have up to the minute information on currency dealings and fluctuations on their rates. International Treasury Management Division of *Marine Midland Bank* provides such a computerised service world-wide. This service is based on a computer super-structure in the USA; it allows subscribers to the bank's system to make properly valued judgements in determining measures which will minimise foreign exchange

risks. It provides input for subscriber's own accounting and reporting systems.

Honeywell devised MAR-INFO for Marine Midland Bank, which performs the necessary calculations and prints a completely optional selection of foreign exchange reports. By running the programme over the network the users can extract the informations they need to determine their strategy in foreign exchange and money market decision-making. Twice each morning and once each afternoon, the International Treasury Management Group in London loads exchange rates and currency data into the service. Similarly, a parallel group in Marine Midland's New York offices loads US rates and domestic money market information. Since there are time-gaps between trading times at London and New York, in each country one can review exchange rates *before* the start of business with more upto-the-minute data.

On the other hand, *Citibank* has installed a *Phillips Data System PTS 6,000* terminal arrays at its main UK offices. The dual PTS system performs two separate functions at the bank; one handles order processing and stock control for some $800 million worth of traveller cheques a year; the second system recently installed a teller terminal facility at six cashier positions to handle all branch transactions. Its Strand branch conducts a large number of relatively complex foreign exchange and currency transactions at the counter every day. PTS 6,000 enables *Citibank* to speed up transactions, eliminate errors and accelerate the branch book-keeping at the end of each day's business.

The teller system comprises a main processor, six work-stations incorporating printers, keyboards and plasma displays, and a general terminal printer. The system has now been linked to the bank's IBM 370/135 computer and communicates daily on a batch basis to update files. The *Phillips PTS 6,000 Financial Terminal System* was originally developed in Sweden, and has since become one of the leading systems of its kind with some 19,000 terminals installed by banks and financial institutions world-wide. So far probably it has not been installed in India but at least one Phillips PTS 6,000 System should be installed by one large bank—say the State Bank of India.

It is also suggested that since foreign exchange dealings are becoming much larger in magnitude—and now that the Reserve Bank of India will be investing our foreign exchange reserves in foreign lands—it would be imperative for the RBI to acquire the services of Marine Midland for a daily review of foreign exchange stratagy before new investments are made or securities retired by increasing liquidity. The RBI could then finance our own foreign trade—mainly imports instantly instead of allowing foreign banks to finance imports and collect short-term interests. Such computer systems will also allow the RBI to keep a better check of inflow of invisibles.

In the UK some of the merchant banks—which incidentally account for more than 50 per cent of that country's inflow of invisible earnings of 12.8 billion pounds sterling a year (Rs 19,968 crores)—have

been installing a number of PDP-11 mini-computers, which has been developed by *Arbat*. *Kleinwort Beneson* alone handles nearly one billion pounds sterling a year (Rs 1,560 crores) and has installed a large *IBM 370/135*, more than a dozen PDP-11s in their configurations of 40, 50, 55 and 70s series generally with 128K core memories. These have all been welded into a software system *AIMS-11* developed by *Arbat*. *Kleinwort Benson* chose *Arbat* because their hardware and software were half the cost of IBM's parallel systems.

RBI's need

Since our own inflow of invisibles has reached the level of Rs 1,800 crores a year and exports are slated to increase to Rs 6,000 crores during 1978-79, it is time that the RBI chose one of these systems. It could call for a competitive bidding. Basically, there would be a market for at least 400 such terminals for currency and foreign exchange transaction alone in India. It is suggested that while for basic processing the RBI may choose Arbat's PDP-11 series with AIMS-11 software, the terminals could be manned by our own TDC-312's CPUs. This way, we would have the best of both the worlds and at a cheaper cost.

With high speeds of computerised banking services, chances of frauds have also increased, a contingency towards which the computer hardware manufacturers and software developers have given their serious attention to. Two new British electronic message security devices—the *Minitronic Hex 97 Securicoder* and the *Minitronic AM 400 Automatic Masterfile*—combine to provide maximum security, strict secrecy and absolute accuracy, which are essential for banks, when carrying out the complex process of authenticated payment messages transmitted or received through SWIFT.

Complicated procedure

Authentication involves the application of a complicated mathematical procedure to the whole of the message text and an "Authenticated Key" is given to the senders and receivers of messages. It is not available to SWIFT. This is unique to each pair of correspondents and is composed of a permutation of 16 hexadecimal characters each of which is used once and once only. This key ensures that the result of the algorithm can only be generated and/or checked by the sending and receiving banks. On the other hand, masterfile has a magnetic memory, which can permanently store upto 400 16-hexadecimal character correspondent keys each of which has been check-digit verified and pre-recorded remotely by authorised personnel using Securicoder. After the Masterfile operator has turned the name selector wheel, it needs the touch of a single button to connect it to a SID (SWIFT Interface Device) or CBT (Computer-based Terminal). This way total security is ensured with expedition of operations and complete accuracy of accounts.

There is a flurry of activity on the part of the big banks aimed largely at containing the costs and time-schedules of handling the vast flood of information that pours into them every day from thousands of branches. Besides, storing this vast information, its instant retrieval is also a big problem, especially in busy centres, such as metropolitan towns. Besides, there are problems involved in instant transactions, which are becoming the order of the day. For instance, LIC has to decide everyday by 12 noon to invest something like Rs 1.50 crores or lose interest on that amount, which even at six per cent should come to Rs 25,657 per day. Thus, a *Scan Data 2250* device installed at a basic cost of Rs 60 lakhs plus 40 per cent import duty allowing for Rs 24 lakhs and Rs 16 lakhs as installation charges in India, could save LIC Rs 25,657 per day minus the daily cost of running the machine of Rs 3,000. Thus, Rs 22,657 saved per day means that it could pay for itself in a little over 15 months. Similar calculations will also be applicable to the transactions and research needs of the RBI.

Lloyds Bank in the UK has just installed a *Scan-Data 2250* at a cost of 400,000 pounds sterling (Rs 60 lakhs) at its vast computer centre at Bankside. It handles 500,000 handwritten characters a day sent from 2,000 locations, This system can read characters and numerals written in ordinary ball-point pen with an accuracy as good as data capture via punch and verifier. Work on the Scan-Data machine does not stop there. It reads informations put out on printers by other computers and in fact caters for all data not needed for immediate response over the Lloyds teleprocessing network. It reads data at 1,600 characters per second. Data output is through compatible tapes.

In addition to this major move in data capture, Lloyds has installed a number of whole series of NCR Quantor computer output to microfilm, which take over the task of

providing account movement details on microfiche to all branches. With an avalanche of data to handle, Lloyds is now replacing most of their terminals with faster capture and release devices. Some of these terminals had been in existence for 12 years.

National Westminster Bank will also have some of the Scan-Data units under a contract worth 550,000 pounds sterling (Rs 85.8 lakhs). It will be delivered together with a *Cummins OCR* and magnetic character reader later this year. Already installed is a *Cummins Key-Scan 5400*, which is handling a variety of documents of all shapes, sizes and thicknesses having pre-printed, line printed and post-encoded data. Output is again on compatible tape. Main application is in the processing of collection account credits, where transaction volumes are constantly on the increase.

Access has acquired a 300,000 pounds sterling (Rs 46.8 lakhs) *Scan-Data OCR* machine to handle credit card payments in which the reader and the correction facility are used with the key-to-disc array. Handling upto 100,000 separate payments a day, the equipment is enabling *Access Credit Card* people to run the job with one-third of the staff previously required to feed in a comparable amount of data via keyboards and displays on line to the main machines. At the same time, the latter are freed for other work. Many more automation proposals for controlling the data floods through Scan-Data devices are in the pipelines.

Of course, lately, *Midland Bank* has shown that large computer systems need not be employed for handling data floods. They are employing Arbat's mini-computers in a series, which can be matched to teleprocessing units turned out by IBM and other devices turned out by Burroughs. Midland's international operating divisions and companies alone use 145 such machines and terminals. These are large arrays based on Arbat's PDP-11 series, with 128 K byte memories. Maybe instead of *Scan-Data 2250*, which is a large machine, we in India could do with much smaller *PDP-11* machines in their several configurations from 40s to 70s. The point to note is that Indian banks are also getting floods of data, which need storage, retrieval and processing for quicker uses. These services can be rendered both by large and mini-computers depending upon the volume of work to be generated and handled at different centres. Large bank branches could have mini-computers and their regional and central offices could instal larger machines, all matched to each other, through SWIFT.

Can small banks, with a lower load of daily transactions acquire computerised services? INTABS (International Terminal Accounting and Banking Service) has provided a positive answer to this poser. INTABS provides management accounting, and current accounting support, together with foreign exchange operations control, Eurodollar transactions and loans and deposits accounting. Banks pay only for the service and the degree of sophistication required by the user. Managements are sure of obtaining vital figures before opening for the day's business. At the same time, computerisation of input to the centre eliminates many

clerical errors and provides an inestimable safeguard as to the correct routing of the transfer of funds.

INTABS is of significance to banks operating private and corporate current accounts who need a combination of credit control and up-to-date statements produced on request. INTABS is run by CMG. Once the international banking transfer network—SWIFT — becomes highly operational--and CMG is providing valuable support to achieve that end—the real time aspect of the INTABS will come into its own once SWIFT messages start to come in.

Spot transactions

Users will then be able to route confirmations and payments immediately and automatically without any clerical participation. This has also a validity under Indian conditions, where outstation cheque clearances take anything from a week to three weeks today. An INTABS type of service even in major towns could help start instant spot transactions, and speed up banking services quite substantially. INTABS type of service is more suited to Indian conditions because individual banks may not be able to spend large sums on computerisation of their spot transactions, which could be done through a common city centre.

We have already seen how Arbat's *PDP-11* hardware and *AIMS-11* software help computerisation of banking services. Now comes another development by Arbat again, which is called SPEAK EASY, which is in a way an extension of EMI's voice recognition system known as *Threshold*. The SPEAK EASY system is being interlaced with SWIFT also. It is trained to recognise upto 225 phrases and "taught" a word by the user speaking it ten times. The elctronics average out the voice pattern and store it in memory. Immediate application is summoning instant data by voice—by a spoken word—all the data relevant to a particular operation on a display screen forming part of the system.

Arbat insists that with current emphasis on credit control, the SPEAK EASY equipment could form an important part of the banking operations since it could be made to retrieve immediately from computer memory all the liabilities of a particular client. The moment he phones for more credit, SPEAK EASY could bring to display his total account in front of the manager, the decision being made then and there about provision or denial of further credit.

It is easy to increase the confidentiality of such a system by inserting pass-words and since anyone attempting to use it, who has not actually been trained in the recognition side of the equipment, is unlikely to get a hit rate of much more than 50 per cent, it appears to offer a high degree of security, particularly in the "tweaked up" form used with headsets rather than a hand-held microphone. Arbat engineers are also working on a four-user version for application in its chosen area of banking, with obvious uses outside also, say in R and D operations where mathematical matrix is large and complex. Voice-actuated pattern and character recognition, summoning of relevant data and re-storage, add one more dimension to computerised banking services with increased efficiency and security together with increased accuracy too. In India, even dealers and brokers in shares can use this voice-actuated movement of banking services and instantly judge the strength of particular clients. Had such a device been installed at the State Bank of India at its Parliament Street branch a decade back, the celebrate Nagarwalla's alleged deceptio would not have taken place a all. But its main functio would still be quicker servic at great speed with tota reliability.

We have seen in actual fac how computers and their sof wares help to increase efficier cy and banking services i almost all dimensions of thei normal operations, namely, cle ring of cheques, safeguardin payments from possible fraud controlling the flood of data presenting up-to-date informa tions about foreign exchang dealings and trends, facilita ing spot transactions even b small banks, and instantl summoning data through vic actuation. In India, bankin services are developing on th same lines as in wester Europe, Japan and the USA where computers are takin over information storage an retrieval, and its instant use b managers, whether it be hand ing current accounts, providin credits, big and small, an

effecting transfer and reception of payments. It is, therefore, urged that Indian banking be computerised to make its services as sophisticated and as efficient as those provided by banks in HDCs.

Will it all be worth it? How much will it cost? How does computerisation stand in its cost-benefit analysis? Will not the trade union leaders make noises about installation of large computers? These are quite valid questions because we would not suggest computerisation in Indian banking just to copy our friends abroad. We are definitely of the opinion that computerisation in Indian banking is well worth it and a viable computer market amongst them now exists for at least 20 large computers (say Central Processing Units), which would cost anywhere from Rs 80 lakhs to Rs 1.20 crores a piece. This means a total outlay of Rs 16 crores to Rs 24 crores. There also exists a market amongst smaller banks or smaller branches of larger banks of 500 mini-computers, at, say, Rs 100,000 each or about Rs 5 crores in total. The third area is specialised information services such as SWIFT, or the foreign exchange dealings the world over, voice-actuated data retrieval, data scanning for proper storage (through laser beams) and the like. This would have a total current market of roughly Rs 10 crores. Thus, a total outlay of Rs 35 crores on computer hardwares and softwares could bring immense benefits to our banking system.

In cost-benefit terms, most of this outlay of Rs 35 crores would be recouped within 15 to 24 months of their installation, and would last at least 84 months if not more. This means that even at its lowest, it will give us a cost-benefit ratio of 1:3.5, if not more. If future savings on payments to personnel are also taken into account, then the cost-benefit ratio will go over 1:7 or 8. Thus, it stands to reason that its installation will be an economic boon to banking services, their costs will be lowered and real time operations increased in efficiency. Quicker flow of banking services would improve the general management efficiency of industrial and business houses.

In sum, during the first five to seven years—1978-85—bank computerisation will cost Rs 35 crores in India, of which nearly Rs 25 crores will be in foreign exchange but in subsequent seven years—1985-92—computerisation may cost us Rs 100 crores, of which no more than Rs 10 crores need be in foreign exchange. Computerisation of banking services will itself provide a fillip to the computer hardware and software industry in India. This is another wholesome aspect of the proposition, which should be kept in mind.

TRADE WINDS

Ordinance on Bonus

An Ordinance has been promulgated on September 8, extending for one more year Payment of Bonus Act, providing for a minimum bonus of 8.33 per cent and a maximum bonus of 20 per cent applicable to all industrial units including the banking companies. Within this minima and maxima, workers and employers can enter into an agreement for the payment of bonus on any other formula.

The maintenance of status quo for the payment of bonus in the accounting year 1977 was decided upon after prolonged negotiations with the trade union leaders pending a revision of the formula on a wider basis. The cabinet had also approved the arrangement because of ensuing festival season and an announcement to that effect had been made in the last session of parliament.

The ordinance has been promulgated to give effect to the decision as the act could not be passed in the last session. The ordinance amends the Payment of Bonus Act as amended last year extending its operation for one more year. A minimum bonus of 8.33 per cent of the annual wages has to be paid in the accounting year 1977, whether an establishment had made profit or not. Provision has also been made for exempting sick industrial units. The maximum limit of bonus payable has been fixed at 20 per cent. The act covers all establishments including the banking companies and Industrial and Reconstruction Corporation of India as it was the case last year also.

Export Duty on Tea

The government of India has reduced from September 7, the export duty on tea from Rs 5 per Kg to Rs 2 per Kg. The export duty of Rs 5 a kg was imposed in April last year. The objective according to a recent Commerce ministry announcement is to make Indian tea competitive in the world market. The export duty of Rs 5 was imposed when international price of tea was high. The prices in the London market have slumped now making Indian tea uncompetitive. Exporters faced with this problem had been demanding abolition of the export duty.

Cold Rolling Complex at Bokaro

The Metallurgical and Engineering Consultants India Limited (MECON) will design and supply the complete cold rolling mills and do the consultancy and engineering for a captive power plant for Bokaro steel plant in its four million tonnes expansion programme. An agreement to this effect was signed at Ranchi recently by Mr S. Samarapungavan, managing director, Bokaro Steel Limited and Mr K.C. Mohan, chairman-managing director of MECON. The Rs 300 crore rolling mill complex, to be commissioned by 1982, will produce additiondly about half a million tonnes of very high quality cold rolled strips and will be of latest design incorporating hydraulic automatic gauge control system and other modern features. The entire installation will be suitable for future continuous operation for obtaining higher production with minimal capital investment. It will comprise one 5-stand tandem cold rolling mill, one single stand skin pass mill and one twin stand double cold reducing/temper pass mill. The captive power plant that is being set up at Bokaro will comprise three thermal units of 60 MW each and the construction would be taken up in early 1979. to be completed in phases. The first unit will be commissioned within 36 months and the second in 42 months and the third in 48 months.

Crude Imports

The minister for Petroleum, Chemicals and Fertilisers, Mr H.N. Bahuguna, informed Lok Sabha recently that 15 million tonnes of crude oil was expected to be imported during 1978-79. He said that the indigenous production during this period was expected to aggregate 12.14 million tonnes. The minister, in a written answer to a question pointed out that while all attempts were being made to intensify oil exploration activities in the country, plans were being made for the exploitation of the established reserves, keeping in view, the need to conserve this non-renewable source of energy. It was, therefore, difficult to hold out any promise of attaining self-sufficiency in crude oil. He said that the exploration policy would be pursued vigorously for making an inventory of the hydro-carbon resources. In reply to another question, Mr Bahuguna stated that the indigenous crude production in 1977-78 was 10.185 million tonnes—Assam oilfields contributing 4.51 million tonnes, Gujarat 4.237 million tonnes and the offshore Bombay High 1.438 million tonnes. The refining capacity developed in the country was of the order of 27.45 million tonnes per annum, he said.

Enhanced Duty on Coffee

Having regard to the increase in the international prices of coffee, the central government has enhanced the export duty on coffee form Rs 200 per quintal to Rs 400 per quintal with effect from September 6, 1978.

Customs Duty on Insulated Paper

As a part of the 1978 budget, the customs duty on condenser tissue paper and electrical grade insulation paper was reduced to 75 per cent *ad valorem*. The central government has now decided to extend this concessional rate of customs duty of 75 per cent *ad valorem* to electrical grade insulation paper board also. This change takes effect from September 7, 1978.

Production of Washed Coal

There has been a substantial increase in annual coal production by the country's washeries. Washed coal production has increased from 10.2 million tonnes in 1975-76 to 11.38 million tonnes in 1976-77 and to 12.44 million tonnes in 1977-78. During the current year, it is expected to increase further to 13.40 million tonnes. There are at present 14 washeries in operation in the country. There has also been an increase in the quantity of coal produced with a 17 per cent ash content. This

increased from 0.48 million tonnes in 1976-77 to 1.60 million tonnes in 1977-78—an increase of over 300 per cent.

The department of Coal plans to set up three new washeries at Sudamdih, Monidih and Ramgarh, which are all designed to produce washed coal with 17 per cent ash content. Technical improvements are being incorporated in these washeries for this purpose. When these are in operation, the quality of washed coal available for steel plants is expected to improve further. According to the department of Coal the quality of coal supplied to steel plants has varied within about one per cent of their requirements only, and they have been able to increase their hot metal production without any damage to their blast furnaces. During the current year, it will be possible to supply 16.69 million tonnes of coal (including 13.40 million tonnes of washed coal) to steel plants, which is equal to the requirements indicated by them. The attainment of this target of production and ash content implies a significant improvement in the working of the washeries and a reversal of the trend established over the last five years.

India-Vietnam Cooperation

India and the Socialist Republic of Vietnam signed a protocol recently on cooperation in the field of radio and television between the two governments. Mr L.K. Advani, minister of Information and Broadcasting, signed on behalf of government of India and Mr Tran Lam, chairman, State Committee for Radio and Television, Socialist Republic of Vietnam, on behalf of his government. Signing the agreement Mr Advani said that it was one more milestone in strengthening the relation between two countries. Describing the agreement as an important step in promoting better understanding, he expressed the hope that the peoples of the two countries would appreciate the cultural achievements of each other.

Speaking on behalf of his government, Mr Tran Lam described the protocol as a significant document. He was confident that this would create favourable condition to bring the peoples of the two countries closer and appreciate each others problems.

Electrical Equipment for Algeria

The first consignment of electrical equipment for the setting up of two high-voltage sub-stations for SONELEC, Algeria, a state-owned national organisation, was shipped, recently by Tata Exports from Bombay. This prestigious contract, valued at Rs 315 lakhs, was the first ever turnkey electrical projects to be secured from Algeria by an Indian company. The project entails design, detailed engineering, supply of high voltage electrical equipment, installation and maintenance of the sub-stations and rendering of technical services including training of Algerian engineers for project management, operation and maintenance of the sub-stations. The two sub-stations being installed at Si-Mustafa and El-Kala are part of an ambitious power development programme now underway in Algeria. The contract is being executed in association with Tata Electric Companies and Tata Consulting Engineers. The sub-stations will be commissioned within a year's time. Tata exports secured this order in the face of stiff competition from world renowned manufacturers including firms from France, West Germany, GDR and Sweden.

International Engineering Meet

Association of Indian Engineering Industry (AIEI) has announced its first venture in international affairs—the International Engineering Industries meet in February 1979 in New Delhi. In view of the importance of industrial cooperation among developed and developing countries, as well as, among developing countries themselves, and the role of producers' associations in promoting this cooperation and assisting the industrialisation process in developing countries, the Association of Engineering Industry (AIEI) in collaboration with UNIDO, is proposing the organisation of this meeting of representatives of engineering industry/producer associations from selected countries in south, east and south-east Asia.

With the support of government of India, department of Industrial Development, a team from the United Nations Industrial Development Organisation (UNIDO) had visited the Second Indian Engineering Trade Fair organised by the association in February 1978 in New Delhi. On this occasion, AIEI, in cooperation with the UNIDO organised a conference on "Economic Cooperation between Developing Countries" to discuss the scope for economic and technical cooperation between developing countries with special reference to the engineering industry. The conference also considered the subject of transfer of technology, industrial development, trade, etc. Delegates from India and abroad participated in the discussion. Emerging out of this UNIDO team's visit and subsequent discussions in Vienna, AIEI and UNIDO have prepared a report on a programme of cooperation between the two organisations. The first project in this joint venture is the organisation of this meeting of Engineering Industry Associations from selected Asian countries on "Cooperation between them and UNIDO in assisting the industrialisation process in developing countries".

Food Prospects

The price index for cereals which fell by four per cent between March 1977 and March 1978 has shown a further mar-

ginal fall since then. The index had risen by nine per cent between March 1976 and March 1977. Several factors have contributed to the steady fall in the price index for cereals since the new government was formed at the centre in March 1977. The record production of about 126 million tonnes of foodgrains in 1977-78 has given the economy a sense of buoyancy and confidence. The increase in the procurement price of wheat and paddy and availability of inputs in time produced the necessary response from hte cultivators.

Arrangements for procurement of foodgrains were also streamlined so as to cope with the bumper harvest. Over 10.3 million tonnes had been procured out of the crop of 1977-78 till the end of August as against 9.9 million tonnes last year. The bulk of the procurement has been in the nature of support purchases i.e. the foodgrains were voluntarily offered for sale by the kisans. In view of the unrestricted inter-state movement of foodgrains, procurement of over 10 million tonnes at support price is indeed significant.

Significant Factor

Another significant factor in bringing down the price index has been extension of the public distribution system. Releases through the system which benefit the weaker sections have been maintained at a high level. The 'Food for Work' programme was launched for strengthening the infrastructure in the rural areas and creating durable productive assets. Some 1.2 million tonnes of foodgrains have been earmarked for release to the states under this programme for the current year. It has been decided that over and above the operational needs of the public distribution system, government should build up a buffer stock of 12 million tonnes of wheat and rice. The existence of these stocks have by itself acted as a stabilising factor.

Indian Exhibition in Moscow

At the Indian National Exhibition held in Moscow, recently, the number of visitors crossed the 1.5 million-mark by the time the exhibition came to an end on August 30, 1978. The peak daily figure of nearly 150,000 was reached on Sunday the August 27, which was regarded as record for any national exhibition held in the USSR or any other country. Almost all the top dignitaries of the USSR government, members of Politbureau and leaders of the Communist Party present in Moscow visited the exhibition. Amongthem were A. P. Kiristlenko, K. T. Mazurov and V. V. Kuznetsov, members of Politbureau, B. N. Ponomaryov, Solometsev, I. V. Kapitonov, M. V. Zimyanin, Ryabov, Archipov, A. S. Barkauscas, Dimsit, Patolichev, N. K. Baybakov, Grishin and Goldin.

Meanwhile several exhibitors from the public as well as private sector finalised their contracts with the buying houses of the USSR and some of the East European countries. Full impact of the order booking is however expected to be felt in the next year's trade plan. As a result of the diversity of exhibits displayed and many new products introduced the exhibition was expected to add a new dimension in the Indo-USSR trade in the coming years. The items of interest were machine tools, boiler equipment, guillotine shears storage batteries, spectacle frames, electrolyser pot, cash register, dyes and detergents, wire ropes, handicrafts, cables, beads of bone and ivory. Active talks were held between an Indian party and a USSR organisation for setting up a plant in the USSR for the manufacture of cosmetics.

A wide range of electronic goods and accessories, cash register, telephone cables, models of reactors and satellites for space research and irradiated seeds and grains showing the application of nuclear research for peaceful purposes made a great impact. Sports goods proved of equal interest in view of the forthcoming olympics in Moscow in August 1980.

Wide range of textiles, carpets, woollen knitwear, leather garments and ivory handicrafts were of particular interest to the ladies who were found to crowd the stalls displaying these objects.

Gujarat State Financial Corporation

The tempo of industrial development in the Gujarat state was picking up as reflected in the trend of receipt of loan applications, disbursal and sanctions accorded by the Gujarat State Financial Corporation (GSFC). The loan applications received by the corporation during the first four months (April-July) of the current financial year amounts to Rs 15.48 crores showing a rise of 82 per cent over the corresponding period of previous year. The disbursal of loan amounted to Rs 5.12 crores reflecting a rise of 34 per cent.

The GSFC approved loan applications amounting to Rs 5.93 crores during four months of the current financial year as compared to Rs 5.66 crores sanctioned last year. Out of loan sanctioned during the current financial year, a substantial amount of Rs 3.61 crores has been approved for setting up or development of small scale units, while remaining Rs 2.32 crores have been approved for medium scale units. The GSFC sanctioned loans of Rs 2.19 crores for 115 industrial units coming up in backward districts of the state during the current year. Under the new entrepreneur scheme taken over by the GSFC from the current financial year, loans of Rs 21.86 lakhs have been sanctioned to 16 units on liberal terms for setting up new enterprises by entrepreneurs. Seventyeight mini loans (loan below Rs 10,000) amounting to Rs 5.66 lakhs have also been approved by the GSFC to help small entrepreneurs.

IDBI on Capital Issues

The Industrial Development Bank of India has taken a policy decision to arrange for capital issue by its assisted projects only after they went on stream, the bank chairman Mr J.N. Saxena, stated recently. "This is aimed at ensuring that the issue of equity receives the maximum support of the investing public, assuring that the underwriting obligations devolving on us are reduced to the minimum", he said while delivering the valedictory address on conclusion of the fifth general course on development banking. Mr Saxena added that development banks had to strive continuously to sophisticate their tools for project appraisal, implementation and follow-up. Apart from the need for close monitoring of the implementation it might also become necessary to provide, at the time assistance was sanctioned, a suitable line of credit to be availed of by the project in order that project did not get bogged down at a critical stage for want of assistance.

The Tata Power Company Limited

CHAIRMAN'S STATEMENT

The following is the summary of the Statement of Mr Naval H. Tata, Chairman of the Tata Power Company Limited, for the year 1977-78. The Annual General Meeting of the Company will be held on Thursday, the 21st September 1978 at 2.30 p.m. at the Tata Auditorium.

1. Presenting our annual accounts is an appropriate occasion for a brief review of the industrial and economic environment under which our Companies are operating. At the State level, there have been further changes in the colour and constitution of the ruling party. We can assure the powers-that-be, both at the Central and State levels, that we will continue to operate with dedication in the sphere of our activity to maintain our traditional efficiency and even endeavour to improve upon it with the impending expansion of our generating units. It must be appreciated that such achievement can only be possible through resort to higher technology on our part and the Government's unstinted support and encouragement to the Companies in acquiring the latest available technology in the field. Unless these two pre-requisites are fulfilled, India will never be able to maintain her place among the industrially advanced nations in the power field.

2. Forecasts concerning energy and capacity requirements are closely linked to those of a country's economic development as represented by the Gross National Product. I presume that our planners are keeping in mind such nexus between GNP and capacity requirements in planning for power needs of the country. Unfortunately, there happens to be a daily deficit in energy averaging 25 GWH all over the country. It has become a characteristic feature of all our 5-year Plans, with the result that there have been consistent shortfalls over the years between planned targets and actual achievement. Such shortfalls spell serious setbacks to industrial production and agriculture, and are a great blow to our dreams for rapid rural development. This unhappy situation not only calls for more realistic power planning and greater expertise in our approach, but also for better maintenance management, intensive training for plant operators and a sustained professional base for effective operational and administrative management.

3. One factor of recent origin affecting power supply reliability is the prevailing climate of industrial unrest in the country. The impact of such unrest is felt well beyond the generating utilities and almost creates a chain reaction which seriously affects investment and the economic growth of the nation. It raises the crucial issue of the category of essential services and calls for a special dispension in our labour laws restraining them from direct action in the form of strikes, go slows, etc. which may be tolerated to some extent in non-essential sectors, but not in such key sectors representing the nerve centre of our entire productive apparatus.

4. Tardy implementation of power programmes and inefficient functioning of some utilities in both the public and private sectors have seriously affected the current power situation. To prevent an unprecedented crisis in the economy, a crash programme would have to be undertaken, not only to commission those power projects which have spilled over the previous Plan, but also to take suitable action at an expeditious pace with regard to those projects which have been included in the Sixth Plan. It is heartening also to note that the Planning Commission is alive and conscious of encouraging professionalism in management economics and has stressed the need to streamline the management of electricity utilities to make them operate more efficiently by inducting a greater measure of professional expertise. It is here that well-maintained and efficiently operated utilities can provide useful models through organizing seminars and encouraging exchange visits to broaden the horizon of the operating staff and to prepare them for impending changes involved in attaining higher planned power targets. I am happy to report that the Tata Electric Companies are in the forefront of such an exercise and have encouraged such visits and seminars.

5. In Maharashtra State, the overall industrial scene appears to be a happy one, and the State continued to maintain its lead in industrial and agricultural output. Statutory restrictions in varying degrees continued to be in force, but the total power availability was utilised through judicious distribution and monitoring and control. Moreover, it is a happy augury that the disquieting note of unrest among electricity workers in other parts of the country, did not adversely affect the working of power generating units in Maharashtra. It is undoubtedly a tribute to the discipline, solidarity and sense of responsibility of those employed in electricity undertakings within this State. However, there was acute shortage of power in certain areas, resulting in production stagnation, price increases and non-utilization of substantial productive capacity.

6. It is indeed an irony of fate that even under such compelling circumstances, our prosal for a 500 MW unit was held up for 5 years resulting in a cost escalation of nearly Rs 70 crores of additional finance. In the challenges facing the country in terms of her power needs, our companies have asked for extension of their licences. Unfortunately, in an area where there is unlimited scope for co-existence between the private and public sectors, there has been more time devoted to the ideological consideration for confining electricity industry to the public sector only, rather than for expanding the generating capacity as a whole. The introduction of high level thermal technology in India will narrow the gap between this country and the Western world in terms of unit size and its allied infrastructure. Larger units with higher pressure and temperature conditions are now recognised as standard in the industrially developed countries. Such units will be needed for our own needs and will involve meticulous equipment procurement planning, design engineering, construction and installation testing and commissioning, operation and maintenance, and practical simulator training to run these units with a high degree of reliability. All these call for first-hand exper-

ience in handling and operating sophisticated high pressure and high temperature units of sizes two and a half times larger than the largest so far installed, which India would have missed but for the decision to install its first 500 MW unit.

7. The transport of electrical energy from these super-thermal stations to the load centres in turn will necessitate EHV and UHV transmission lines, and with the current state of the art in DC technology, HV DC transmission would also seem a very attractive economic alternative for bulk power transportation. We are well aware of these challenging problems and we are confident that, inspired by our Government's epoch-making decision to opt for super-thermal units, we will be able to study and be conversant with such high technology in power generation, needed not only for our domestic requirements but also for securing valuable consultancy jobs abroad.

8. With regard to legislation governing electricity utilities, I reiterate that the financial provisions and norms in the Indian Electricity Act, 1910, and the Electricity (Supply) Act, 1948, need to be revised to make them growth-oriented. With the urgent need for augmenting generating capacity to bridge the gap between power supply and demand, high priority needs to be given to electric utilities to establish and augment transmission and distribution facilities, simultaneously with each expansion of power generation. However, the electricity supply industry being a capital intensive one, large amounts of funds running into crores of rupees will have to be found for financing both these objectives. The mounting cost of investment in power projects which is not considered a growth industry in the context of capital appreciation, coupled with the difficulty of raising resources due to the credit squeeze, calls for a radical outlook in financing power projects. Such an approach calls for a meaningful change in the legislation governing the electricity industry.

9. I am of the opinion that the present stringent provision on Reasonable Return should be relaxed in keeping with the prevailing market conditions, so that potential investors will be drawn to this industry in preference to other sectors where no similar restraints on their earning capacity are imposed as under the Electricity (Supply) Act, 1948. In addition, adequate provision should be made in this Act for legitimate appropriations so as to provide for generating adequate inernal resources by the industry for financing its own growth. These would include (i) a Debt Redemption Reserve for repayment of loans and debentures raised from the public as well as from the financial institutions, and (ii) a Rehabilitation and Modernisation Reserve for maintaining plant and machinery at high degree of efficiency and reliability. It is heartening to learn that the Planning Commission has called for a review of the mode of financing the power sector. Schemes for power generation are becoming increasingly difficult on account of numerous financial constraints. Under the present system, funds for the power programme, the bulk of which is in the State sector, have to be found from the pool of resources available from the State's annual plans. In spite of the high priorities accorded to the power sector, difficulties persist and projects are extremely difficult to implement. Delays in construction ultimately result in cost escalations which upset the financial projections made at the time of planning and sanctioning of the projects. The Planning Commission's desire to review the whole process of planning of power projects has not, therefore, come a day too soon.

10. In the recent past, the environmental deterioration in some parts of this metropolis has rightly been a cause for concern, not only to the State and Central authorities, but also to environmentalists, social workers and the public in general. A new factor has now emerged, which may well prove a turning point for Bombay City. For the first time, our Companies have received gas directly from the Bombay High offshore installations. Our Trombay thermal power station has commenced using this valuable gas, which was otherwise being flared. This gas is perhaps the cleanest fuel since there are no objectionable residual emissions through its use. We have always been conscious of our obligations to the community in ensuring a cleaner environment in our region. We shall certainly continue our efforts in this direction to the best of our ability, by upgrading the power plant periodically. In addition, we have undertaken an extensive programme of mass-scale tree plantation. It is an undisputed fact that trees are effective "pollution absorbers" and this tree plantation project is yet another effort by us to protect the environment from the dangers of unchecked sources of pollutants such as exhaust fumes from road vehicles.

11. We sincerely believe that environmental problems need to be approached and tackled on a rational rather than on mere emotional grounds. In seeking to protect the environment, we are establishing a modern laboratory at Trombay to analyse and monitor ambient air quality and emission levels. The advice of foreign experts in environmental engineering, as well as the recommendations of local statutory bodies have also been considered and are being implemented. We have designed our equipment for expansion with an eye on the expected development of urban areas in the future and their needs for a healthy environment and can assure those concerned of our realistic and practical outlook for the disposal of the by-products of thermal generation without jeopardizing the health of the people.

Chairman

COMPANY AFFAIRS

Andhra Cement

ANDHRA CEMENT, which has reported high capacity utilisation of 122 per cent during 1977-78, has embarked upon a large expansion programme. Its 250,000 Portland blast furnace slag cement grinding plant at Vishakhapatnam is in final stages and is expected to be commissioned by March 1979. The company has also achieved good progress in respect of a clinkering unit near Nadikudi in Andhra Pradesh. The project is undertaken by Durga Cement Works which has finalised the site and has initiated preliminary work. For blancing the cement grinding capacity on completion of Durga Cement Works and making full use of the blast furnace granulated slag available from Rourkela, the company has finalised a proposal with the government of Orissa for setting up a five-lakh tonnes per annum PBFSC grinding plant to be completed in two phases at Rourkela.

The directors have decided to make a rights issue of Rs 50 lakh at par to meet the immediate financial outlay for the clinkering unit at Nadikudi. The rights shares will be offered in the ratio of two shares for every three shares held. Meanwhile, the company's performance during 1977-78 has been encouraging with cement despatches totalling 2.89 lakh tonnes against 2.80 lakh tonnes in 1976-77 (capacity: 2.40 lakh tonnes). Its production would have been still higher but for the interruption in production caused by the cyclone in Andhra Pradesh in November, 1977. The company's sales have increased to Rs 6.71 crores from Rs 5.62 crores in 1976-77. Gross profit has increased by over 35 per cent to Rs 50.15 lakhs from Rs 36.39 lakhs for the previous year. After providing Rs 18.65 lakhs (Rs 15.35 lakhs) for depreciation, the net profit amounts to Rs 38.50 lakhs against Rs 11.54 lakhs. The directors have proposed a higher dividend of 12.5 per cent, including an additional dividend of 2.5 per cent for 1977-78. The total dividend distribution will amount to Rs 9.50 lakhs (Rs 8.04 lakhs). The allocation to the general reserve amounts to Rs 33.03 lakhs (nil).

General Electric

General Electric Company of India Ltd, has recorded a profit of Rs 382.25 lakhs for the year ended March 31, 1978 as against Rs 413.17 lakhs a year before. After providing Rs 229.40 lakhs for taxation, and Rs 4 lakhs for investment allowance reserve, the directors have recommended the payment of dividend of Rs 86.40 lakhs. An amount of Rs 65.02 lakhs has been transferred to general reserve.

Trading conditions for the company were difficult but there was some improvement in certain areas of the business particularly in power engineering products towards the end of the year. However, margins deteriorated because costs increased more than selling prices. During the year capital employed increased to a high level essentially due to delay in the payment of debts due from some state electricity boards. The contribution from consumer goods was again adverse, though sales picked up towards the end of the year. There were further improvements in the quality and range of engineering products and the new range of industrial motors was well received. Its capital goods applications have been cleared and production will commence during the current year. An industrial licence for flame proof switchgear is in the final stages of negotiation with the government and letters of intent for other products are being processed.

Polychem

The acrylonitrile butadiene styrene (ABS) plant of Polychem Ltd is expected to be commissioned in the first quarter of 1979. Orders for the equipment and machinery have been placed and the erection work is in progress. For the vinyl acetate monomer (VAM) plant, negotiations for loan required are in progress with financial institutions. With the establishment of these two projects, the product mix of the company will be further diversified and this is expected to help improve the working of the company The chairman of the company has suggested that the earlier decision to import about 4,000 tonnes of general purpose grade polystyrene during the current fiscal year needs serious reconsideration particularly when the manufacturing units are operating normally and meeting the full demand of the processing industry. Two polystyrene plants can produce per year about 20,000 tonnes against the demand of around 16,000 tonnes only.

English Electric

Directors of English Electric Company has reported a profit after depreciation of Rs 3.70 crores during the year ended March 31, 1978 as against Rs 3.56 crores last year. A sum of Rs 2.25 crores (Rs 2.38 crores) has been provided for income tax and surtax. The proposed dividend of Rs 3.20 per share will absorb Rs 72 lakhs. An amount of Rs 45.46 lakhs has been transferred to general reserve.

Demand for the company's fusegear and switchgear standard and engineered products and in particular loose air circuit breakers and cubiclegear incorporating air circuit breakers has been satisfactory. Production of relays increased further during the year which enabled the company to give improved deliveries to customers. A number of new static relays have been introduced to the relay range including the static distance scheme and automatic voltage regulating relay for capacitor control. Two letters of intent for the manufacture of electronic test equipment were converted into industrial licences. Some of the new ranges of equipment covered by the two licences and phase comparision protection scheme interipping system, for which the industrial licence was received last year, are scheduled for production during the current year. Discussions continue with the government on the terms on which collaboration with the General Electric Company Limited in the UK can be extended. Assistance from that company has enabl-

ed English Electric India to introduce products of the very latest sophistication.

IFFCO

The managing director of the Indian Fertilizers Cooperative Limited, Mr K. Chowdhary, announced recently that the government had authorised IFFCO to set up one more factory for manufacturing fertilisers near Surat in Gujarat. The initial investment for this factory would be Rs 70 crores and it would manufacture six lakh tonnes of fertilisers per annum. Another factory would be set up at Phulpur with an investment of Rs 70 crores to manufacture 500,000 tonnes of fertilisers per annum.

The managing director of IFFCO further disclosed that the present two factories were already working, one at Kalol with a total investment of Rs 60 crores and produced 400,000 tonnes of fertiliser, every year and the other at Kandla with an investment of Rs 40 crores and produced 400,000 tonnes of urea every year.

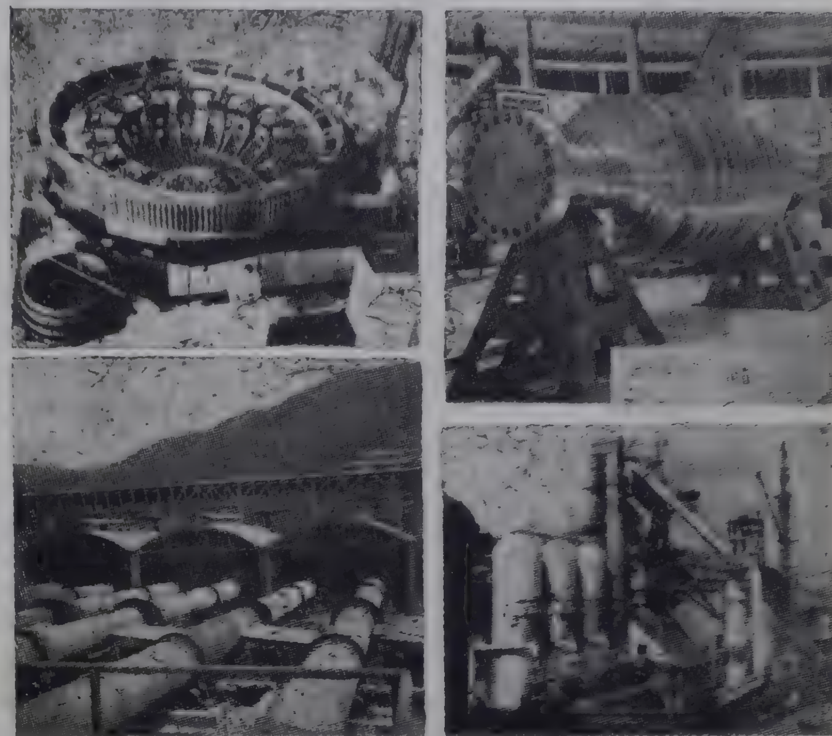
Gujarat Alkalies

Gujarat Alkalies and Chemicals Ltd, has shown a carry forward loss of Rs 1.12 crores during the year ended March 1978. This includes an amount of Rs 23.70 lakhs and Rs 1.16 lakhs spent on purchase of chlorine tonners and chlorine cylinders which have been fully depreciated as per the provisions of the Income Tax Act. As indicated in the directors' report the cash losses of the previous year have been wiped out and Rs 13.85 lakhs have been provided for depreciation.

The directors feel that the picture for the coming year is encouraging. The company is at present producing more than the licensed capacity. The production during the last four months had been 12,060 MT of caustic soda, 5,426 MT of liquid chlorine and 16,748 MT of hydrochloric acid, which is higher than the licensed capacity. The sales, net of excise and sales tax have been of the order of Rs 260 lakhs resulting in a gross profit of Rs 98.63 lakhs. The working results of these four months indicate not only that the company had earned adequate amount for meeting all its debt obligations, payment of instalment and covered the entire proportionate depreciation but had also made some net profit. The company had fully met with all of its financial obligations including interest and instalments due to the financial institutions.

Shree Manufacturing

Shree Manufacturing Co, formed by some of the erstwhile shareholders of Indian Copper Corporation, proposes to purchase 600,000 equity shares of Rs 10 each, that is, the entire subscribed share capital of Eyre Smelting Private Ltd, at a price not exceeding Rs 23.89 per share so as to make the latter company as its wholly-owned subsidiary. The idea is to ultimately amalgamate the said company with it. The company has been considering for quite some time undertaking various projects since its inception. Eyre Smelting Pvt Ltd, owns two factories situated in Calcutta and Madras. It is one of the leading producers of non-ferrous alloys, fluxes, resins, cored solders, yellow metals and silver solder wires in the country. At the end of 1977,



its net assets stood at Rs 143.36 lakhs. The surplus was Rs 141.87 lakhs. The company proposes to issue bonus shares in the ratio of five new shares for every share held, thus increasing the equity capital to Rs 60 lakhs in 600,000 equity shares of Rs 10 each.

During 1977, the company has earned a pre-tax profit of Rs 23.33 lakhs against Rs 11.56 lakhs in 1976 and the profit after tax of Rs 9.33 lakhs against Rs 4.41 lakhs. For 1976, an equity dividend of 40 per cent was paid. Since the shares in the company are held by non-residents, the Reserve Bank had directed the company not to declare and pay dividends till such time the non-resident interest in its equity capital continues to be more than 74 per cent. Shree Manufacturing Co also will need permission of the RBI under the FERA for the purchase of shares of Eyre Smelting.

Caprihans India

With a view to complying with the listing requirements of the Bombay Stock Exchange, some of the present shareholders of Caprihans India Ltd, will make an offer of sale of 10,90,800 equity shares of Rs 10 each at par. Of these 50,000 shares have been reserved for offer to the employees and business associates, who are Indian nationals and 199,950 shares for the public financial institutions. The balance 840,850 shares will be offered to the public. The shares to be offered will be entitled to the dividend for the current year ending March, 1979.

The company has at present four plants in operation. These are located at Thane near Bombay and at Nasik. The first unit for the manufacture of PVC film and sheet started in 1957 in Bombay. It also started manufacture of leather cloth in 1965 by lamination of PVC film or sheet to various fabrics. In view of the increasing demand, the company decided to expand the capacity by setting up a new unit at Thane, which was commissioned in 1969. The old plant in greater Bombay for the manufacture of decorative and industrial laminates was shifted to Thane in 1971.

As a part of its expansion and diversification programme, the company is building a paper mill in Roha (Maharashtra) with a capacity of 5,000 tonnes per annum at a capital cost of Rs 1.60 crores. The mill is expected to start trial production before the end of this year. It also holds a letter of intent for the manufacture of polypropylene and prolystyrene hollow corrugated board. Its sales totalled Rs 17.94 crores during the year ended March, 1978 against Rs 14.75 crores in the previous year. The gross profit was higher at Rs 159.08 lakhs against Rs 88.67 lakhs. After provisions and adjustments, the disposable profit was Rs 77.95 lakhs against Rs 63.01 lakhs. The total equity dividend for 1977-78 is 12 per cent against 10 per cent for 1976-77.

Raymond Woollen

The Raymond Woollen Mills, has made an application to the government for setting up a new 25,000 spindle project for the manufacture of yarns which is still under the government's consideration. It has received a letter of intent for the establishment of a new undertaking for the manufacture of Portland cement with an annual installed capacity of 400,000 tonnes. The company has approached the government for permission to import certain items of capital equipment for the project. Detailed proposals for raising additional share capital and loans for the project are still under consideration.

Apollo Tyres Taken Over

The union government has taken over the management of Apollo Tyres in Chalakudi, Kerala, under the Industries (Development and Regulation) Act, it was officially announced on September. It is learnt that mismanagement of the company was one of the main factors that forced the government to take this step. Some time ago, the government appointed a body under the IDR Act to look into the affairs of the company following a steep fall in its production. The take-over decision was taken on the basis of the enquiry.

Six Companies to Raise Capital

The government has allowed six companies to raise capital of Rs 1.38 crores. The following are the details:

The Peerless General Finance & Investment Co Ltd: Rs 183,530 in the ratio of on bonus share of Rs 10 eac for each equity share of Rs 1

Mohan Exports (India) Pv Limited: Rs 5 lakhs in th ratio of one bonus share Rs 100 each for each equi share of Rs 100.

Hindamata Industries Limited: Rs 108,500 in the rat of one bonus share of Rs 1 each for every two equi share of Rs 100.

Ruby Coach Builders P Limited: Rs 4.05 lakhs in th ratio of one bonus share Rs 100 each for every fi equity shares of Rs 100.

Standard Mills Compa Limited: Rs 1,07,80,400 in th ratio of one bonus share Rs 100 each for every fi equity shares of Rs 100.

Duncan International Limed: Rs 18,35,900 in equ share of Rs 100 each rights to the existing equ shareholders in the ratio 11 new shares for every th equity shares held.

Dividend

Name of the company	Year ended	Equity divide	
		Current year	Previ year
Peria Karamalai Tea and Produce Co Ltd	March 31, 1978	20	2
Kalasa Tea & Produce Co Ltd	,,	22.5	22.
Kil Kotagiri Tea Co Ltd	,,	22.5	22.
Cawnpore Textiles Ltd	,,	Nil	Ni
British India Carporation Ltd	,,	Nil	Ni
Vardhman Spinning Mills Ltd	,,	12	Ni
Mahavir Spinning Mills Ltd	,,	Nil	Ni

LIC business and income touch new heights

During the year ending March 31, 1978, LIC has established new records in several spheres of its activities, declared Mr S. Rangarajan, chairman of the Life Insurance Corporation of India while announcing the results of LIC working during 1977-78.

FOR THE first time, the total income of Life Insurance Corporation during the year exceeded Rs 1,000 crores, the new business amounted to Rs 5,805.66 crores and the business in force crossed Rs 20,000 crores to reach Rs 20,190.05 crores. Some of the important details of the working of the corporation during the year are as follows:

The total new business of the corporation comprising individual and group policies amounted to Rs 5,805.66 during the year as against previous year's Rs 5,119.23 crores, thus registering an overall increase of 13.4 per cent. Out of this, the group business amounted to Rs 3,785 crores against Rs 3,007 crores during 1976-77. The number of new lives covered under group schemes during the year under review was 9.79 lakhs as against 6.65 lakhs in 1976-77.

Large Coverage

Among the more important schemes finalised were the Tamil Nadu scheme covering approximately three lakh employees of the local bodies and aided schools and the Andhra Pradesh Road Transport Corporation scheme covering about 42,000 employees.

There was, however, a marginal decline in the individual assurance business which stood at Rs 2,020.71 crores under 18.58 lakh policies as compared to Rs 2,112 crores under 20.56 lakh policies during the previous year. Apart from the general economic factors which adversely affected the corporation's performance in the individual life assurances was the unrest which prevailed among the development officers during the last quarter of 1977-78.

New Business

The corporation's new business on individual lives in the rural areas of India amounted to Rs 495.60 crores under 5.72 lakh policies during 1977-78 as against Rs 575.34 crores under 6.86 lakh policies during the preceding year. Suitable steps are being taken to improve the rural business.

Business under the salary saving scheme, which grants life insurance cover to the wage earners by direct deduction from the salaries at the time of disbursement, went up during the year to Rs 413.91 crores under 6.17 lakh policies from Rs 373.88 crores under 5.85 lakh policies during 1976-77.

More than 75 per cent of the individual assurances underwritten in India were for sum assured of Rs 10,000 or less. The average size of the new policy on individual lives issued during the year in India was Rs 10,814 as compared to Rs 10,207 the year before.

During the year under review, 12.06 lakh individuals were insured for the first time, constituting about 65 per cent of the individual assurance policies completed.

About 44 per cent of the individual assurances transacted during 1977-78 were under the non-medical schemes.

The total insurance business in force as on March 31, 1978 exceeded Rs 20,000 crores to touch Rs 20,190 crores under 207.75 lakh policies as compared to the previous year's Rs 17,942 crores under 203.48 lakh policies. Out of this, individual assurances accounted for Rs 15,818 crores under 207.69 lakh policies and the group schemes Rs 4,372 crores covering 44.70 lakh lives under 6,235 group schemes.

Premium Income

The corporation's first year premium income for the accounting year stood at Rs 101.81 crores as against Rs 101.94 crores for the previous year. The renewal premium income during the period increased to Rs 565.48 crores as against the previous year's Rs 511.21 crores. For the first time, the total income of the corporation which includes income from interest, dividends etc. in addition to the premium income, crossed the Rs 1,000 crores mark to reach Rs 1,017.16 crores as compared to Rs 925.70 crores of the earlier year.

The total outgo of the corporation on payments to policy-holders, commission to agents, salaries, valuation surplus utilised as per LIC Act etc., during 1977-78 amounted to Rs 469.79 crores as against Rs 413.79 crores. The outgo on wages and salaries went up to Rs 107.12 crores during the year as against Rs 94.95 crores of the preceding year.

The Disbursements

The increase was on account of the disbursement of Rs 14.45 crores to class III and IV employees as bonus for the years 1976-77 and 1975-76. Mainly the escalation in the wage bill caused the renewal expense ratio for the year to move up-to 15.65 from the provious year's 14.92.

The Life Insurance Fund at the end of the financial year ending March 31, 1978 went up to Rs 4,500.70 crores as against the previous year's Rs 3,952.88 crores, representing an increase of 13.86 per cent.

Based on the results of 11th valuation as at March 31, 1977, reversionary bonuses were allotted to the participating policies at the rate of Rs 25.00 per thousand sum assured on whole life policies and Rs 20.00 per thousand sum assured on endowment policies. There was thus an increase of Rs 3.00 and Rs 2.40 respectively under whole life and endowment assurance policies. The modest increase in bonuses has been brought about after 8 years.

This was made possible by greater investment yield and control on expenses, especially on such items as overtime. Strict watch is being kept on expenses. No recruitment of staff has been made for the last three years. Given the present trend in business prospects and no serious set-back occuring in operational costs, there is reasonable hope that the corporation may be in a position to improve bonuses to policyholders further, in the next valuation as on March 31, 1979.

Claim Payments

Claim payments worth Rs 200.26 crores both on account of death as well as maturity claims on 6.05 lakhs policies have been made during 1977-78 as against claims worth Rs 177.71 crores on 5.63 lakh policies of the previous year. On an average, 2,000 claims with Rs 67 lakh were settled by the LIC per working day.

The ratio of outstanding claims to total claims on sum assured basis was 15.10 per cent as against 14.14 per cent during 1976-77.

The net lapses, i.e., lapses less revivals worked out to 5.4 per cent of mean life business in force during the year as against the 5.3 per cent of 1976-77.

Substantial fall in the number of complaints received at the central office indicates general improvement in working of the offices of the corporation during the year under review. In all, 7,818 complaints were addressed to the central office during this year as compared to the 18,189 complaints during 1976-77. The ratio of complaints per thousand policies in force declined sharply to 0.38 during the year from the previous year's 0.61.

In keeping with the corporation's policy of stepping up investments to assist such priority sectors of the economy as, e.g., housing, power generation, water supply, etc., a gross sum of Rs 317 crores was invested in this area during the year under review as against a gross sum of Rs 289 crores for the previous year. This is besides the corporation's investments in the central and state governments securities amounting to a gross sum of Rs 278.72 crores during the same period which are also channelled for the developmental activities. The corporation's total investments for the year 1977-78 amounted to a gross sum of Rs 638.19 crores as against a gross sum of Rs 544.08 crores of the preceding year.

As at March 31, 1978, the book value of the investments of the corporation stood at Rs 4,106.55 crores and that of the socially purposive investments at Rs 1,875 crores, the latter constituting about 46 per cent of the total investments. In the field of power generation, the book value of the corporation's investments as on March 31, 1978 stood at Rs 774.40 crores and in housing at Rs 578 29 crores. The book value of our contribution to agriculture, in terms of assistance to land development banks, sugar cooperatives and the Agricultural Refinance Corporation, was to the tune of Rs 200 crores as at March 31, 1978. In addition to our investments in the various state-level development agencies for industrial growth, a gross sum of Rs 9.21 crores stood advanced as loans to 36 industrial estates for the development of small-scale industries up to March 31, 1978. During the year under review, the corporation agreed to underwrite and subscribe 85 new issues for an amount of Rs 72.64 crores.

Over 75.5 per cent of the book value of the corporation's investments and the loans outstanding as on March 31, 1978 was in the public sector, 11.6 per cent in the cooperative sector and 12.8 per cent in the private sector including joint sector, loans under policies, etc.

The gross rate of interest realised on the mean life fund during 1977-78 was 7.49 per cent.

After the increase in the fiscal incentives to savings through life insurance premiums, as announced in the last central budget, the prospects for improvement of new business have brightened. The current year's performance so far during 1978 is encouraging. Individual assurance business has registered about 20 per cent increase and a substantial growth has also been recorded in group business over the corresponding period of the previous year. One instance of an important group scheme finalised during the financial year is that for extending insurance protection to 2.65 lakh state government employees and 68,000 police personnel in the state of West Bengal. A group scheme covering 1,17,489 employees of the non-government educational institutions viz, primary schools, secondary schools and colleges in Orissa for a total sum assured of Rs 92.70 crores is yet another important scheme finalised in the year 1978-79. As a matter of fact, the corporation's new business performance during the first five months of the current financial year has been its best ever on many counts.

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